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MEDICAL DISCOVERIES INC
Form 10KSB40
April 01, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

- ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001
- TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT For the transition period from _____ to _____

Commission file number 0-12627

MEDICAL DISCOVERIES, INC.

(Name of small business issuer in its charter)

Utah

87-0407858

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

738 Aspenwood Lane, Twin Falls, Idaho 83301

(Address of principal executive offices)
(208) 736-1799

(Issuer's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class -----	Name of Each Exchange On Which Registered -----
None	None

Securities registered under Section 12(b) of the Exchange Act:

Common Stock, no par value

(Title of Class)

Check whether the issuer: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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The issuer had no revenues for its most recent fiscal year.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, as of February 11, 2002, was \$3,856,046.

As of February 11, 2002, the issuer had 34,706,917 shares of Common Stock outstanding.

Transitional Small Business Disclosure Format (check one): Yes [] No [X]

1

TABLE OF CONTENTS

PART I

Item 1. Description of Business	3
Item 2. Description of Property	9
Item 3. Legal Proceedings	9
Item 4. Submission of Matters to a Vote of Security Holders	9

PART II

Item 5. Market for Common Equity and Related Stockholder Matters	9
Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 7. Financial Statements	14
Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	29

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act	29
Item 10. Executive Compensation	30
Item 11. Security Ownership of Certain Beneficial Owners and Management	31
Item 12. Certain Relationships and Related Transactions	31
Item 13. Exhibits and Reports on Form 8-K	31

2

This report contains certain forward-looking statements that involve risks and uncertainties, including statements regarding the Company's plans, objectives, goals, strategies and financial performance. The Company's actual results could

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differ materially from the results anticipated in these forward-looking statements as a result of certain factors set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations--Cautionary Statement for Forward-Looking Information and Factors Affecting Future Results" and elsewhere in this report.

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

ORGANIZATIONAL HISTORY

Medical Discoveries, Inc. ("MDI" or the "Company") was incorporated under the laws of the State of Utah on November 20, 1991. Effective as of August 6, 1992, the Company merged with and into WPI Pharmaceutical, Inc., a Utah corporation ("WPI"), pursuant to which WPI was the surviving corporation. Pursuant to the MDI-WPI merger, the name of the surviving corporation was changed to Medical Discoveries, Inc. WPI was incorporated under the laws of the State of Utah on February 22, 1984 under the name Westport Pharmaceutical, Inc. Effective as of May 8, 1984, Westport Pharmaceutical, Inc. merged with and into Euripides Technology, Inc., a Utah corporation ("Euripides"), pursuant to which Euripides was the surviving corporation. Pursuant to the Westport-Euripides merger, the name of the surviving corporation was changed to Westport Pharmaceutical, Inc. Westport Pharmaceutical, Inc. subsequently changed its name to WPI Pharmaceutical, Inc. Euripides was incorporated under the laws of the State of Utah on November 9, 1983.

On July 6, 1998, the Company incorporated a wholly-owned subsidiary, Regenere, Inc., in the State of Nevada. On October 2, 1998, the Company incorporated another wholly-owned subsidiary, MDI Healthcare Systems, Inc., in the State of Nevada. Both subsidiaries were incorporated to undertake special purposes, neither of which is currently being pursued by the Company. Neither subsidiary currently has any operations or significant assets.

OVERVIEW

MDI is a publicly traded corporation (Over The Counter, Bulletin Board as MLSC). MDI is considered a development stage company, as defined in SFAS No. 7. MDI is a bio-pharmaceutical research company engaged in the research, development and validation of a new (novel) class of drugs, based upon the company's patented and proprietary electrolysis technologies. MDI is developing active anti-viral (HIV/AIDS), anti-bacterial and anti-fungal agents for a variety of applications.

The company has developed a product, (hereafter "MDI-P"), which appears to have the ability to destroy certain viruses and bacteria, including the HIV virus. MDI-P may also have the ability to kill other infectious agents, possibly including pathogenic fungi and parasites. MDI-P may possibly be used as a sterilizing agent for medical and dental instruments. MDI-P may also potentially be used to remove or inactivate infectious agents in human and animal blood-derived products such as plasma and gamma globulin.

The Company is committed to its pursuit of establishing MDI-P as an effective anti-bacterial, anti-viral and anti-fungal pharmaceutical for in-vitro and in-vivo applications and to developing MDI-P as an effective liquid chemical sterilant for a variety of applications. To date, the Company has not generated significant revenues from operations or realized a profit. MDI is currently attempting to secure capital commitments to finance continued research and testing of its novel drugs and technologies, in order to secure required approvals to bring products to market. In that MDI is a development stage company, it will increasingly require additional funding to continue the development of its technology and to finance submittal of its testing and trials to the appropriate regulatory agencies in order to secure approvals for product

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development and sales.

THE PRODUCT

The Company's primary product is referred to as MDI-P, which stands for "Medical

3

Discoveries, Inc.-Pharmaceutical." MDI-P is produced by the electrolysis of saline, using a patented instrument with proprietary electrodes. This solution has a significant oxidation reduction potential due to a mixture of oxidative products resulting from electrolysis.

Electrolysis is the method whereby a certain type of electric current is passed through a chemical solution. The electrical current causes the chemicals in the saline solution to alter, producing a variety of chemical compounds, such as ozone and hypochlorous acid. Different electrical currents produce different concentrations of these and related chemicals. In published scientific literature, electrolyzed saline solutions have been shown to have an intense anti-microbicidal effect.

In-vivo applications of MDI-P, targeted at treating certain human diseases, would require administration intravenously, orally, nasally or topically as required. In the Company's currently proposed protocol for treating human diseases, this electrolyzed solution would be administered intravenously to a patient in a series of injections over a period of time. In-vitro applications, such as the sterilization of surgical instruments, would involve the washing and/or submersion of the instrument or material in the MDI-P solution.

Independent research has revealed that MDI-P is capable of rapidly killing HIV upon direct contact and preventing infection of cells in a cell culture. In addition, MDI-P is capable of rapid killing of the HIV virus in an acutely infected cell line. Furthermore, the destruction of the HIV virus by MDI-P does not require any additional combination of drugs. When compared to currently available anti-retroviral drugs, this is a significant clinical and economic advance. This research testing has demonstrated that MDI-P is effective in destroying the HIV virus.

During the past eight years, the Company has conducted a variety of in-vitro (laboratory) testing at the following university and medical research institutions:

Stratton V.A. Medical Center, Albany, New York
Albany Medical College, Albany NY
Indiana University School Of Medicine And Dentistry
University of California, Los Angeles
Baylor College of Medicine and Dentistry, Dallas

In 1998, MDI initiated in vitro testing, conducted at the Dana-Farber Cancer Institute, Boston, Massachusetts, a major teaching affiliate of the Harvard Medical School. This facility is an NIH-approved (National Institute of Health) research laboratory which uses the latest techniques for analyzing anti-retroviral (HIV/AIDS) drugs. The results of this independent testing confirmed that MDI-P achieved destruction of more than 90% of the HIV virus in cell cultures, with no toxicity to the cells.

In 2000, data and results published by Dr. Aldonna Baltch, M.D., of the Stratton V.A. Medical Center and Albany Medical College, Albany NY, indicate that MDI-P is a potent antibacterial and anti-fungal agent. Dr. Baltch's work demonstrated that MDI-P was effective in destroying the fungus *Candida albicans* and

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Legionella pneumophillia (Legionaire's Disease) within 60-seconds of exposure with no evidence of cell toxicity. This work was published in The American Journal of Infection Control in 2000 and as abstracts of the American Society of Microbiology meetings in 1997 and 1998.

Recent toxicity tests, completed in 2001 by WIL Research Laboratories, demonstrated that MDI-P produced no systemic toxicity in laboratory animal tests used to assess potential problems for human application. These studies were conducted following FDA guidelines and have helped establish that MDI-P is reasonably safe for human Phase I/II clinical trials.

Additionally, several human clinical trials involving AIDS patients were performed offshore in Mexico and The Cayman Islands during the early history of the company. MDI is currently considering additional offshore tests, using an updated protocol acceptable to US regulatory agencies.

All of these tests have demonstrated that MDI-P has broad spectrum anti-viral, anti-fungal and anti-bacterial characteristics. The Company believes that MDI-P may offer new hope to patients in the fields of anti-bacterial and anti-fungal applications, where side effects and cost pressures are issues.

4

Prior to filing an Investigational New Drug (IND) application with the U.S. Food And Drug Administration (FDA), additional FDA-required testing for standardization and documentation will be completed at Ricerca Inc. in Painesville, Ohio, and CMI in Portland, Oregon.

Upon the FDA's acceptance and approval of the IND, the Company will undertake Human Clinical Trials, Phases 1 and 2, involving patients infected with the AIDS virus. When finished, MDI will petition the FDA to enter into Phase 3 Multi-Center Clinical Trials. When these trials are implemented and analyses are completed, the Company will seek approval from the FDA to establish worldwide access to MDI-P for the treatment of HIV patients.

RECENT DEVELOPMENTS

On March 27, 2002, the Company entered into an Advisory Agreement with Euronet International, Inc., a New York City-based business and financial advisory firm. Under the terms of the agreement, Euronet International will seek to initiate a private placement of MDI stock to raise up to \$10 million. While details of the private placement have not been finalized, the parties anticipate a preferred stock offering to accredited investors via the Internet. The Company will need to secure shareholder approval to amend its articles of incorporation before the Company can offer preferred stock. A shareholder meeting is planned during the month of June 2002. The primary usage of proceeds from the offering will be to retire debt owing to former joint venture partner Harvest Group L.L.C., and to pursue an application with the FDA regarding MDI-P. The Advisory Agreement is attached as Exhibit 10.3.

In January, 2002, the Company received the results of toxicity tests, completed in 2001 by WIL Research Laboratories, demonstrating that MDI-P produced no systemic toxicity in laboratory animal tests used to assess potential problems for human application. These studies were conducted following FDA guidelines and have helped establish that MDI-P is reasonably safe for human phase I and phase II clinical trials.

In January, 2001, the Company received Patent Number 6,117,285 from the United States Patent And Trademark Office, entitled "System For Carrying Out Sterilization Of Equipment." MDI now has a total of eight granted United States

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patents relating to the company's proprietary electrolysis devices, methods and the patented products and applications derived therefrom. The family of patents represents the continued development of MDI's technology and intellectual property, begun in 1992 with proprietary hydrolysis of saline solutions for microbicidal applications and the development of a patented machine to produce these products.

Also in April, 2001, the Company received Japanese Patent Application Number 508856/96 from the Japanese Patent Office, entitled "System And Method For Carrying Out Sterilization." The new patent is based upon the original US Patent No. 5,507,932, "Apparatus For Electrolyzing Fluids", issued to Medical Discoveries, Inc. in 1996. This patent was the second in a family of additional patents in the US and elsewhere that defines and safeguards the proprietary electrolysis technology used by MDI.

Also in January, 2001, a new study on the microbe-killing properties of MDI-P, using four microorganisms that are difficult to eradicate in the hospital environment, was completed at the Infectious Diseases Section of the Stratton VA Medical Center in Albany, New York. The infectious diseases research group, headed by Aldona Baltch, M.D., found that MDI-P is a highly effective microbicide for the organisms studied. The results of this study suggest that MDI-P may be useful for disinfecting inanimate surfaces, cold sterilization of medical devices, antisepsis, and irrigation therapy for wounds and ulcers. The findings of Dr. Baltch's group have been published in The American Journal Of Infection Control (AJIC 2000;28:251-7), the official journal of the Association for Professionals in Infection Control and Epidemiology, Inc.

As of November 29, 2001, the Company settled its ongoing dispute with Harvest Group, L.L.C. ("Harvest"). The settlement required the Company to deliver to Harvest a non-interest bearing, convertible promissory note (the "Note") in the principal sum of \$500,000 due on July 8, 2002 (the "Due Date") in full satisfaction of all current amounts owing on loans from Harvest and all of Harvest's other claims against the Company. Under the terms of the Note, Harvest's only recourse, if the Company does not satisfy the Note in full by the Due Date, is to convert the unpaid principal amount to unregistered shares of common stock of the Company.

5

Upon the expiration of the Due Date, any principal sum outstanding shall automatically convert to a number of shares of the Company's common stock equal to a percentage of the total number of shares then issued and outstanding, on a fully-diluted basis (including any unexercised, outstanding stock options or other rights to acquire stock), as follows:

Principal Sum Outstanding -----	Percentage of Common Stock Issued and Outstanding -----
\$1 - 400,000	20%
\$400,001 - 450,000	25%
\$450,001 - 500,000	30%

For example, if, as of the Due Date, the Company has 33,000,000 shares of common stock issued and outstanding, 2,000,000 options outstanding and not yet exercised, and the principal sum of \$410,000 remains unpaid as of the expiration of the Due Date, the Note will convert to 11,666,666 $([35,000,000 / (1 - 0.25)])$ -

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35,000,000) shares of common stock of the Company. Notwithstanding the automatic conversion provisions, Harvest may, in its sole and absolute discretion, suspend the automatic conversion of the Note beyond the Due Date by providing written notice to the Company of such election no fewer than thirty (30) days prior to the Due Date. If Harvest suspends the conversion of the Note, the conversion shall remain suspended indefinitely unless and until Harvest elects to convert the Note by giving the Company at least thirty (30) days prior written notice of such election. During any such period of suspension of the automatic conversion of the Note, the Company may pay the principal sum due thereunder in whole or in part.

The settlement also prohibits the Company from certain sales, licensing and financing transactions concerning its patents until the Company has satisfied the Note. In addition, the agreement calls for the Company to receive all skin-care products inventory in Harvest's possession and a return of the Company's office furnishings that have been held by Harvest since the dispute arose.

PATENTS AND PATENT APPLICATIONS

MDI's patents and resulting intellectual properties now span more than a decade of research and development. Medical Discoveries, Inc. holds eight United States Patents and two Japanese patents on its core technologies. These US Patents are identified and have been awarded by the U.S. Patent Office under the following Notifications:

Patent No. 5,334,383

"Electrically Hydrolyzed Salines As In Vivo Microbicides For Treatment Of Cardiomyopathy And Multiple Sclerosis," issued in 1994 and valid until 2011.

Patent No. 5,507,932

"Apparatus For Electrolyzing Fluids," issued in 1996 and originally valid through 2014. This patent is currently lapsed for accidental failure to pay a maintenance fee and the Company is seeking revival.

Patent No. 5,560,816

"Method For Electrolyzing Fluids," issued in 1996 and valid through 2016.

Patent No. 5,622,848

"Electrically Hydrolyzed Saline Solutions As Microbicides For In Vitro Treatment Of Contaminated Fluids Containing Blood," issued in 1997 and valid through 2014.

Patent No. 5,674,537

"An Electrolyzed Saline Solution Containing Concentrated Amounts Of Ozone And Chlorine Species," issued in 1997 and valid through 2015.

Patent No. 5,731,008

"Electrically Hydrolyzed Salines As Microbicides," issued in 1998 and valid through 2016.

Patent No. 6,007,686

"System For Electrolyzing Fluids For Use As Antimicrobial Agents," issued in 1999 and valid through 2016.

Patent No. 6,117,285

"System For Carrying Out Sterilization Of Equipment," issued in 2000 and valid through 2017.

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RESEARCH AND DEVELOPMENT

MDI is a start-up company with limited resources. During the two fiscal years ended December 31, 2000 and 2001, the Company spent \$117,150 and 132,300, respectively on research and development of MDI-P. The Company intends actively to pursue and expand its research effort as funds will allow. The focus of the initial research is on the use of MDI-P as a human anti-viral agent, broad-spectrum bactericide, anti-fungal agent, and a potential sterilizing agent for blood products. In the future, as funds allow, the Company will also focus its research on the use of MDI-P as a sterilizing agent for dental and medical instruments.

COMPETITION

The biotechnology and pharmaceutical industries are characterized by rapidly evolving technologies and intense competition. The Company's competitors include major pharmaceutical, chemical, and specialized biotechnology companies, many of which have financial, technical, and marketing resources significantly greater than those of the Company. Fully integrated pharmaceutical companies, due to their expertise in research and development, manufacturing, testing, obtaining regulatory approvals, and marketing, as well as their substantially greater financial and other resources, may be the Company's most formidable competitors. In addition, acquisitions by such pharmaceutical companies could enhance the financial and marketing resources of smaller competitors. Furthermore, colleges, universities, governmental agencies, and other public and private research organizations will continue to conduct research and possibly market competitive commercial products on their own or through joint ventures. These institutions are becoming more active in seeking patent protection and licensing arrangements to collect royalties for use of technology that they have developed. These institutions also will compete with the Company in recruiting and retaining highly qualified scientific personnel.

If and when MDI obtains any required regulatory approval for any of the uses of MDI-P which require them, it must then compete for acceptance in the marketplace. Given that such regulatory approval, especially in the United States, may take a number of years, the timing of the introduction of MDI-P and other products to the market is critical. Other safe and effective drugs and treatments may be introduced into the market prior to the time that the Company is able to obtain approval for the commercialization of MDI-P. In addition, even after such regulatory approval is obtained, competition among products approved for sale may be affected by, among other things, product efficacy, safety, reliability, availability, price, and patent position. There can be no assurance that MDI-P will be competitive if and when introduced into the marketplace for any of its possible uses.

COMPETITIVE BUSINESS POSITION

MDI is aware of other companies who may be developing similar technologies and products for markets in which MDI may pursue product development and revenue. MDI is continuing to monitor and learn about these companies and technologies, in that they may provide opportunities to develop key relationships that will enhance the company's understanding and development of these technologies and assist MDI to enter worldwide markets in the future, either separately or in strategic alliance with several of these companies. None of these companies is seen as an immediate competitor to MDI's stated strategy of developing a research data base for research-based product development, while continuing to develop intellectual property and to secure patent rights worldwide.

Electrolyzed water, sometimes called "Function Water", has received rapid and intense attention in Japan. In support of this technology, the Japanese government has established a special organization to study applications for this technology. The name for this organization is the Function Water Foundation.

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Japan currently has as many as 35 separate companies developing products to make the benefits of function water available for a wide variety of applications.

Other markets that MDI is considering for product development are medical instrument

7

sterilization and sterilization for animal products production. The Company suspects that several other companies have similar interests in these markets.

Over the last year MDI began developing a comprehensive strategic plan that focuses on three areas: market attractiveness, time/cost to prove technology, and commercialization alternatives. In every instance, MDI is approaching product development and marketing opportunities which are based upon the company's solid research and proprietary product development, backed by patented technologies and secure intellectual properties.

GOVERNMENT REGULATIONS

The Company's use of the MDI-P solution in the treatment of HIV and for other human or in vitro uses is subject to extensive regulation by United States and foreign governmental authorities. These regulations apply not only to the use of MDI-P itself, but also to the manufacture of the electrolysis equipment used to create MDI-P. In particular, pharmaceutical treatments are subject to rigorous preclinical and clinical testing and other approval requirements by the Federal Drug Administration in the United States under the federal Food, Drug and Cosmetic Act and by comparable agencies in most foreign countries. Various federal, state and foreign statutes also govern or influence the manufacture, labeling, storage, record keeping, and marketing of such products. Pharmaceutical manufacturing facilities are also regulated by state, local, and other authorities. Obtaining approval from the FDA and other regulatory authorities for a new drug or treatment may take several years and involve substantial expenditures. Moreover, ongoing compliance with these requirements can require the expenditure of substantial resources. Difficulties or unanticipated costs may be encountered by the Company in its efforts to secure necessary governmental approvals, which could delay or preclude the Company from marketing MDI-P.

For in vivo uses of MDI-P, the Company must conduct preclinical studies to prepare an IND application. If the FDA accepts the IND application, the Company would be allowed to commence a series of clinical trials. Each clinical study must be evaluated by an independent institutional review board. Data from preclinical testing and clinical trials of MDI-P against HIV or as an anti-bacterial agent may eventually be submitted to the FDA in a "New Drug Application" ("NDA") for marketing approval. After the FDA grants approval for the NDA, initial marketing efforts may begin. Each step of the approval process can involve considerable time, money, and effort. At any point, approvals may be withdrawn if compliance with regulatory standards are not maintained. For in vitro uses, the FDA process is significantly less complicated and time consuming. Because the use of MDI-P as a sterilizing agent does not require the injection of this "new drug" in a human patient, MDI is required by the FDA regulations only to demonstrate in laboratory tests that MDI-P is an effective sterilizing agent. This data is required to be filed with the FDA by MDI in the form of a "510(K) Application." This 510(K) Application is subject to FDA approval, but the time required for such approval is considerably less than the time required for the approval of a "new drug" because extensive clinical data is not required.

Other product applications which may be developed for MDI-P could require

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regulatory approvals from other governmental agencies, such as the Environmental Protection Agency pursuant to the Federal Insecticide, Fungicide, and Rodenticide Act and the Toxic Substances Control Act, and other present and potential federal, state and local regulations. These approvals can involve considerable money, time and effort and do not, in and of themselves, guarantee any commercial success for the product applications approved.

LICENSING, DISTRIBUTION, AND MANUFACTURING

Given the preliminary nature of the Company's research, and given the uncertainty of regulatory approvals and market viability, management of the Company is concentrating on making informed decisions regarding the best course for commercialization of MDI-P in its various potential applications. MDI may seek to commercialize potential applications of MDI-P either directly or indirectly in contracts with third parties, including larger, established companies.

EMPLOYEES

The Company currently has no employees. Judy M. Robinett, the Company's CEO, is an independent contractor to the Company. The Company has engagements with a number of other consultants for communications, investor relations, website development, accounting and

8

other services. If the Company obtains sufficient funding, it anticipates adding several employees in 2002.

ITEM 2. DESCRIPTION OF PROPERTY.

The Company does not currently own or lease any real property. Currently, the Company operates out of the CEO's home office and does not pay rent.

ITEM 3. LEGAL PROCEEDINGS.

As of November 29, 2001, the Company settled its ongoing dispute with Harvest Group, L.L.C. ("Harvest"). The settlement required the Company to deliver to Harvest a non-interest bearing, convertible promissory note (the "Note") in the principal sum of \$500,000 due on July 8, 2002 (the "Due Date") in full satisfaction of all current amounts owing on loans from Harvest and all of Harvest's other claims against the Company. Under the terms of the Note, Harvest's only recourse if the Company does not satisfy the Note in full by the Due Date is to convert the unpaid principal amount to unregistered shares of common stock of the Company.

Upon the expiration of the Due Date, any principal sum outstanding shall automatically convert to a number of shares of the Company's common stock equal to a percentage of the total number of shares then issued and outstanding, on a fully-diluted basis (including any unexercised, outstanding stock options or other rights to acquire stock), as follows:

Principal Sum Outstanding	Percentage of Common Stock Issued and Outstanding
\$1 - 400,000	20%
\$400,001 - 450,000	25%

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\$450,001 - 500,000

30%

For example, if, as of the Due Date, the Company has 33,000,000 shares of common stock issued and outstanding, 2,000,000 options outstanding and not yet exercised, and the principal sum of \$410,000 remains unpaid as of the expiration of the Due Date, the Note will convert to 11,666,666 $([35,000,000/(1- 0.25)] - 35,000,000)$ shares of common stock of the Company. Notwithstanding the automatic conversion provisions, Harvest may, in its sole and absolute discretion, suspend the automatic conversion of the Note beyond the Due Date by providing written notice to the Company of such election no fewer than thirty (30) days prior to the Due Date. If Harvest suspends the conversion of the Note, the conversion shall remain suspended indefinitely unless and until Harvest elects to convert the Note by giving the Company at least thirty (30) days' prior written notice of such election. During any such period of suspension of the automatic conversion of the Note, the Company may pay the principal sum due thereunder in whole or in part.

The settlement also prohibits the Company from certain sales, licensing and financing transactions concerning its patents until the Company has satisfied the Note. In addition, the agreement calls for the Company to receive all skin-care products inventory in Harvest's possession and a return of the Company's office furnishings that have been held by Harvest since the dispute arose.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

MARKET INFORMATION

The Company's common stock is traded on the NASD OTC Bulletin Board under the symbol "MLSC." The following table sets forth the range of bid quotations for the Company's common stock for the quarters indicated according to data provided by The NASDAQ Stock Market,

9

Inc. Such quotations reflect inter-dealer prices, without retail mark-ups, markdowns or commissions, and may not represent actual transactions.

FISCAL YEAR ENDED DECEMBER 31, 2001 -----	HIGH BID	LOW BID
First Quarter	Unknown	Unknown
Second Quarter	\$0.145	\$0.085
Third Quarter	0.17	0.095
Fourth Quarter	0.21	0.115

FISCAL YEAR ENDED DECEMBER 31, 2000 -----	HIGH BID -----	LOW BID -----
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First Quarter	\$0.845	\$0.06
Second Quarter	1.180	0.01
Third Quarter	0.230	0.12
Fourth Quarter	0.195	0.06

During much of January, February and March, 2001, no public market (as defined in Item 10(b)(2) of Regulation S-B) existed for the Company's common stock. During that period, bid and ask quotations were not posted to the OTC Bulletin Board or published in the Pink Sheets. As of mid-March, 2001, bid and ask quotations in the Company's common stock were again published in the Pink Sheets and as of April 11, 2001, bid and ask quotations in the Company's common stock were again posted to the OTC Bulletin Board.

SHAREHOLDERS

The approximate number of shareholders of record of the Company's common stock as of February 11, 2002, was 1,248. This number does not include shareholders whose shares are held in securities position listings.

DIVIDENDS

The Company has not paid any cash dividends on its common stock in the last two fiscal years and does not anticipate paying dividends in the foreseeable future. The Company presently intends to retain future earnings for financing the growth and expansion of the Company.

UNREGISTERED SALES OF SECURITIES

On August 30, 2001, the Company sold 500,000 shares of common stock to Ferret Resources at \$0.15 per share for total proceeds of \$75,000. On December 20, 2001, the Company sold another 160,000 shares of common stock to Ferret Resources at \$0.15 per share for total proceeds of \$24,000. These sales did not involve an underwriter. The Company believes these sales were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 because the sales did not involve a public offering.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The purpose of this section is to discuss and analyze the Company's consolidated financial condition, liquidity and capital resources and results of operations. This analysis should be read in conjunction with the financial statements and notes thereto at pages 16 through 29.

This section contains certain forward-looking statements that involve risks and uncertainties, including statements regarding the Company's plans, objectives, goals, strategies and financial performance. The Company's actual results could differ materially from the results anticipated in these forward-looking statements as a result of factors set forth under "Cautionary Statement for Forward-Looking Information and Factors Affecting Future Results" below and elsewhere in this report.

RESULTS OF OPERATIONS

REVENUES AND GROSS PROFIT. The Company did not book any revenues in the year ended December

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31, 2001 as the Company continues to pursue pre-commercialization activities regarding its technologies. By comparison, the Company booked revenues of \$7,495 in 2000 from isolated sales of the Company's skin care products, resulting in a gross profit of \$4,719.

OPERATING EXPENSES AND OPERATING LOSS. The Company spent \$132,300 for research and development during the year ended December 31, 2001, as compared with \$117,150 for the same period in 2000. The Company's general and administrative expenses were \$1,247,302 in 2001, up from \$254,767 during the year ended December 31, 2000. While the net cash used by operating activities in 2001 remained relatively unchanged from 2000 (\$158,300 in 2001 versus \$115,588 in 2000), the Company took significant charges for stock options issued for services (in the amount of \$159,405), stock issued for services and expenses (in the amount of \$364,599), and a net increase of \$385,000 in notes payable to settle the Harvest litigation (discussed in Item 3 above). As a result of the foregoing, the Company sustained an operating loss of \$1,379,602 for the year ended December 31, 2001, as compared with a loss of \$473,766 for the same period of 2000.

OTHER INCOME/EXPENSE AND NET LOSS. The Company incurred interest expenses of \$150,056 in 2001, as compared with \$76,927 in such expenses in 2000. In sum, the Company's net loss for 2001 was \$1,529,658, or a loss of approximately \$0.05 per fully diluted share. In 2000, the Company sustained a net loss of \$281,767, or a loss of approximately \$0.01 per fully diluted share.

INCOME TAXES. The Company has a net operating loss carryforward of approximately \$8,910,000. Due to the Company's operating condition, the net operating loss has been fully offset with a valuation allowance resulting in no deferred tax asset. See Note I to the Financial Statements for a further explanation of this analysis.

FUTURE COMMITMENT AND EXPECTATIONS. Management expects the Company will operate at a loss for several more years while it continues to study, gain regulatory approval of and commercialize its technologies. If the Company is successful in raising additional capital, the Company will likely spend more in 2002 in research and development and general and administrative expenses, and thereby sustain greater resulting losses, than it has in recent years.

RECENTLY ISSUED ACCOUNTING STATEMENTS. In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets". In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The Company believes that the adoption of these accounting standards will not have any material effect on the financial statements of the Company.

LIQUIDITY AND CAPITAL RESOURCES

The Company will require significant additional funding to continue to develop, research and seek regulatory approval of its technologies. In addition, the Company cannot survive, even in the near term, without immediate additional funding for operations. The Company does not currently generate any cash from operations and has no credit facilities in place or available. Currently, the Company is funding operations through short-term loans from shareholders and others.

Management is seeking to raise substantial additional funds in private stock offerings in order to meet its near-term and long-term funding requirements. While management is optimistic that it can raise such funds, the Company has not always been successful in doing so in recent years. Given that the Company is

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still in an early development stage and does not have revenues from operations, raising equity financing is difficult. In addition, any additional equity financing will have a substantial dilutive effect to the Company's current shareholders.

CAUTIONARY STATEMENT FOR FORWARD LOOKING INFORMATION AND FACTORS AFFECTING FUTURE RESULTS

Certain information set forth in this report contains "forward-looking statements" within the meaning of federal securities laws. Forward looking statements include statements concerning plans, objectives, goals, strategies, future events, future revenues or

11

performance, capital expenditures, and financing needs of the Company and other information that is not historical information. When used in this report, the words "estimates," "expects," "anticipates," "forecasts," "plans," "intends," "believes" and variations of such words or similar expressions are intended to identify forward-looking statements. Additional forward-looking statements may be made by the Company from time to time. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of the Company, are also expressly qualified by these cautionary statements.

The Company's forward-looking statements are based upon the Company's current expectations and various assumptions. The Company's expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitation, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties, but there can be no assurance that management's expectations, beliefs and projections will result or be achieved or accomplished. The Company's forward-looking statements apply only as of the date made. The Company undertakes no obligation to publicly update or revise forward-looking statements which may be made to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events. There are a number of risks and uncertainties that could cause actual results to differ materially from those set forth in, contemplated by or underlying the forward-looking statements contained in this report. In addition to the other factors and matters discussed elsewhere in this report, the following factors are among the factors that could cause actual results to differ materially from the forward-looking statements. Any forward-looking statements made by or on behalf of the Company should be considered in light of these factors.

WE HAVE NOT GENERATED SIGNIFICANT OPERATING REVENUES OR ANY PROFITS AND MAY CONTINUE TO OPERATE AT A LOSS. We are a development stage company. To date, we have not generated significant revenues from operations or realized a profit. We have experienced a loss from operations in every fiscal year since our inception. Our losses from operations in 2000 were \$473,766 and losses from operations in 2001 were \$1,379,602. We will likely continue to experience a net operating loss until, and if, we can fully commercialize our technologies. We are presently investing all of our resources in the testing, development and commercialization of MDI-P and our other technologies. There can be no assurance that MDI-P, our other technologies, or any other project undertaken by us will ever enable MDI to generate consistent revenues from operations. Even if our technologies begin generating revenues, the revenues may not exceed the costs of research, development, testing, regulatory approval and other costs. Accordingly, we may not ever realize a profit from operations.

WE MAY NOT BE ABLE TO RAISE SUFFICIENT CAPITAL TO MEET PRESENT AND FUTURE OBLIGATIONS. As of December 31, 2001, our current liabilities exceeded our

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current assets by \$3,282,331 and we had cash of only \$2,481. We need additional capital immediately in order to satisfy current liabilities and meet basic operational needs. We also will need substantial additional capital to fund regulatory approvals and to fully commercialize our technologies. We do not anticipate that revenues will satisfy these capital requirements. Furthermore, we may not be able to obtain the amount of additional capital needed or may be forced to pay an extremely high price for capital. Factors affecting the availability and price of capital may include, without limitation, the following: (1) market factors affecting the availability and cost of capital generally; (2) our performance; (3) the size of our capital needs; (4) the market's perception and acceptance of our technologies; and (5) the price, volatility and trading volume of our common shares. If we are unable to obtain sufficient capital or are forced to pay a high price for capital, we may be unable to complete testing, regulatory approval and commercialization of our technologies and may never achieve consistent revenues or profitability. In addition, because of their size, resources and other factors, our competitors may have better access to capital than we do and, as a result, may be able to exploit opportunities more rapidly, easily or thoroughly than we can.

WE MAY ISSUE SUBSTANTIAL AMOUNTS OF ADDITIONAL SHARES WITHOUT STOCKHOLDER APPROVAL. Our Articles of Incorporation authorize us to issue up to 100 million shares of common stock. Fewer than 35 million shares are issued now, leaving approximately 65 million shares available for future issuance. All such shares may be issued without any action or approval by our stockholders. We anticipate issuing additional shares in connection with private stock offerings for the purpose of raising capital. The issuance of any additional shares

12

of common stock would further dilute the percentage ownership of MDI held by existing stockholders.

OUR OPERATIONS ARE AND WILL BE SUBJECT TO EXTENSIVE GOVERNMENT REGULATION. As more fully discussed in "Description of Business--Government Regulations" above, before MDI-P or any of our other technologies can be used as drugs or in other human applications in the United States, we will need to obtain approval from the Federal Drug Administration. Similar approval is also required in most other countries. FDA approval and the prerequisite testing is time consuming and expensive. Also, many of the applications we are considering for our technology are regulated by the Environmental Protection Agency. The EPA approval process is similarly lengthy and expensive. There can be no assurance that we will attract sufficient capital to fully pursue the regulatory approval process. Even if we do attract sufficient capital, we can make no assurance that we will be successful in achieving approval or, if we do achieve approval, that future revenues will be sufficient to justify the expense of the regulatory approval process.

OUR TECHNOLOGIES ARE UNPROVEN. While we have received positive results from preliminary studies of MDI-P, more studies are necessary in order for us to accurately predict the ultimate effectiveness of our technologies as anti-viral, anti-bacterial and anti-fungal agents. Furthermore, we cannot as of yet be sure that MDI-P is safe to humans when used as intended. Extensive additional research and testing will be necessary before we can fully commercialize our technologies. If our technologies are ultimately deemed unsafe or ineffective, then we will not likely be able to recoup our substantial investment in research and development.

WE FACE INTENSE COMPETITION AND COMPETING PRODUCTS. As more fully discussed in "Description of Business--Competition" above, competition in the market for MDI-P is intense and will likely further intensify. We are aware of private and

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government entities that have studied and used MDI-P-like products in Russia and Japan for several years. If MDI-P gains recognition, we anticipate that international pharmaceutical companies will be interested in investing or competing in this market. Our present and future competitors may be able to develop and commercialize technologies quicker than we can. In addition, even if we do successfully commercialize our technologies, there can be no assurance that our products will gain significant market share as we attempt to compete with more traditional anti-viral, anti-bacterial, anti-fungal, disinfectant and sterilization products and methods.

OUR INTELLECTUAL PROPERTY MAY NOT BE ADEQUATELY PROTECTED. It is our policy to protect our intellectual property and proprietary technologies by, among other means, filing patent applications to protect technology that we consider important to the development of our business. We also rely on trade secrets and improvements, unpatented know-how, and continuing technological innovation to develop and maintain our competitive position. Despite our policy to seek patent protection wherever appropriate, there can be no assurance that our patent applications will result in further patents being issued or that, if issued, the patents will afford protection against competitors with similar technology. While we have obtained several United States patents, persons in jurisdictions outside of the United States in which no application has been filed, or which do not honor United States patents, may develop and market infringing technologies. Also, the cost of enforcing patents outside of North America, as well as other obstacles, may limit our ability to enforce any patents outside of the United States. There can also be no assurance that any patent issued to the Company will not be infringed or circumvented by others or that others will not obtain patents that the Company would need to license or circumvent. There can be no assurance that licenses, which might be required for the Company's processes or products, would be available on reasonable terms or that patents issued to others would not prevent the Company from developing and marketing its products. In addition, there can be no assurance that a court of competent jurisdiction would hold our patents valid if issued. To the extent we also rely on unpatented trade secrets, there can be no assurance that others will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets or disclose such technology.

ITEM 7. FINANCIAL STATEMENTS.

FINANCIAL STATEMENTS TABLE OF CONTENTS

	Page No. -----
INDEPENDENT AUDITORS' REPORT.....	15
FINANCIAL STATEMENTS	
Consolidated Balance Sheet.....	16
Consolidated Statements of Operations.....	17
Consolidated Statements of Changes in Stockholders' Deficit.....	18
Consolidated Statements of Cash Flows.....	21

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
Medical Discoveries, Inc. and Subsidiaries
Boise, Idaho

We have audited the accompanying consolidated balance sheet of Medical Discoveries, Inc. and Subsidiaries (a development stage company) as of December 31, 2001, and the related consolidated statements of operations, changes in stockholders' deficit, and cash flows for the years ended December 31, 2001 and 2000, and for the period from inception (November 20, 1991) to December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to report on these consolidated financial statements based on our audits. The Company's financial statements for the period from inception (November 20, 1991) through December 31, 1999 were audited by other auditors whose report, dated March 20, 2000, expressed an unqualified opinion on those statements. The financial statements for the period from inception (November 20, 1991) through December 31, 1999 reflect total revenues and net loss of \$150,015 and \$9,951,404, respectively, of the related totals. The other auditors' report has been furnished to us, and our report, insofar as it relates to the amounts included for such prior period, is based solely on the report of such other auditors.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of Medical Discoveries, Inc. and Subsidiaries as of December 31, 2001, and the results of their operations and their cash flows for the years ended December 31, 2001 and 2000, and for the period from inception (November 20, 1991) to December 31, 2001, in conformity with U.S. generally accepted accounting principles.

The accompanying 2001 consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company is a development stage enterprise engaged in developing bio-pharmaceutical research. As discussed in Note B to the financial statements, the stockholders' deficiency and the operating losses since inception raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note B. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Balukoff Lindstrom & Co.

Boise, Idaho
March 27, 2002

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
 (A DEVELOPMENT STAGE COMPANY)
 CONSOLIDATED BALANCE SHEET
 December 31, 2001

Current assets	
Cash	\$ 2,481
Current portion of deferred charges	48,305

Total current assets	50,786
Equipment, at cost, net of accumulated depreciation	679
Deferred charges, less current portion	60,381

Total assets	\$ 111,846
	=====
Current liabilities	
Accounts payable	\$ 1,832,340
Accrued interest	279,860
Current portion of notes payable	477,717
Convertible notes payable	743,200

Total current liabilities	3,333,117
Stockholders' deficit	
Escrow receivable	(227,300)
Additional paid in capital	159,405
Common stock, no par value, authorized 100,000,000 shares; 34,706,917 shares issued and outstanding at December 31, 2001	10,797,526
Accumulated deficit	(13,950,902)

Total stockholders' deficit	(3,221,271)

	\$ 111,846
	=====

See accompanying notes

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
 (A DEVELOPMENT STAGE COMPANY)
 CONSOLIDATED STATEMENTS OF OPERATIONS
 Years Ended December 31, 2001 and 2000, and Cumulative Amounts Since
 November 20, 1991 (Date of Inception)

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	2001	2000	Cumulative Amount Since November 1991 Inc
	-----	-----	-----
Revenues	\$ --	\$ 7,495	\$
Cost of goods sold	--	2,776	-----
Gross profit	--	4,719	
Research and development expenses	132,300	117,150	2
Inventory writedown	--	96,859	
Impairment loss	--	9,709	
License	--	--	1
General and administrative expenses	1,247,302	254,767	9
	-----	-----	-----
Operating loss	(1,379,602)	(473,766)	(12)
Other income (expense)			
Interest income	--	--	
Other income	--	268,926	
Interest expense	(150,056)	(76,927)	
	-----	-----	-----
Loss before income taxes and extraordinary item	(1,529,658)	(281,767)	(12)
Income taxes	--	--	
Forgiveness of debt net of \$0 income taxes	--	--	1
	-----	-----	-----
Net loss available to shareholders	\$ (1,529,658)	\$ (281,767)	\$ (11)
	=====	=====	=====
Net loss per share			
Continuing operations	\$ (0.05)	\$ (0.01)	\$
Extraordinary item	--	--	
	-----	-----	-----
Net loss per share	\$ (0.05)	\$ (0.01)	\$
	=====	=====	=====
Weighted average shares outstanding	33,124,927	27,169,288	21

See accompanying notes

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MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS DEFICIT
Period From Date of Inception (November 20, 1991) to December 31, 2001

	Common stock		Paid in Capital	Additio Accumula Defici
	Shares	Amount		
Balance at October 31, 1991	3,500,000	\$ 252,997	\$ --	\$ (1,482,
Reverse stock split (1 for 2)	(1,750,000)	--	--	
Restatement for reverse acquisition of WPI Pharmaceutical, Inc. by Medical Discoveries, Inc.	--	(252,997)	--	252,
Shares issued in merger of WPI Pharmaceutical, Inc. and Medical Discoveries, Inc.	10,000,000	135,000	--	(170,
Balance at November 20, 1991 (Date of Inception)	11,750,000	135,000	--	(1,399,
Issuance of common stock for cash	200,000	100,000	--	
Issuance of common stock for services	500,000	250,000	--	
Issuance of common stock for cash	40,000	60,000	--	
Net loss to October 31, 1992	--	--	--	(370,
Balance at October 31, 1992	12,490,000	545,000	--	(1,769,
Net loss two months ended December 31, 1992	--	--	--	(65,
Balance at December 31, 1992	12,490,000	545,000	--	(1,835,
Issuance of common stock for license	2,000,000	1,000,000	--	
Issuance of common stock for cash	542,917	528,500	--	
Issuance of common stock for services	251,450	127,900	--	
Issuance of common stock for \$100,000 cash plus services	800,000	400,000	--	
Net loss	--	--	--	(2,271,
Balance at December 31, 1993	16,084,367	2,601,400	--	(4,107,
Issuance of common stock for cash	617,237	739,500	--	

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Issuance of common stock for services	239,675	239,675	--	
Cash contributed	--	102,964	--	
Net loss	--	--	--	(1,223,
	-----	-----	-----	-----
Balance at December 31, 1994	16,941,279	3,683,539	--	(5,330,
Issuance of common stock for cash	424,732	283,200	--	
Issuance of common stock for services	4,333,547	1,683,846	--	
Issuance of common stock option to satisfy debt restructuring	--	20,000	--	
Net loss	--	--	--	(1,007,
	-----	-----	-----	-----
Balance at December 31, 1995	21,699,558	5,670,585	--	(6,337,

See accompanying notes

18

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS DEFICIT
Period From Date of Inception (November 20, 1991) to December 31, 2001

	Common stock		Additional	Accumula
	Shares	Amount	Paid in Capital	Defici
	-----	-----	-----	-----
Issuance of common stock for cash	962,868	635,000	--	
Issuance of common stock for services	156,539	101,550	--	
Common stock canceled	(1,400,000)	(472,360)	--	
Issuance of common stock in settlement of obligations	239,458	186,958	--	
Net loss	--	--	--	(456,
	-----	-----	-----	-----
Balance at December 31, 1996	21,658,423	6,121,733	--	(6,794,
Issuance of common stock for services and interest	12,500	3,625	--	
Issuance of common stock for cash	311,538	135,000	--	
Issuance of common stock in settlement of contract	800,000	200,000	--	

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Issuance of common stock from exercise of options	87,836	21,959	--	
Issuance of common stock for conversion of notes payable	100,000	25,000	--	
Net loss	--	--	--	(831,
	-----	-----	-----	-----
Balance at December 31, 1997	22,970,297	6,507,317	--	(7,626,
Issuance of common stock for cash	2,236,928	650,000	--	
Issuance of common stock for debt	283,400	56,680	--	
Issuance of common stock options for services	--	2,336,303	--	
Issuance of common stock for services	683,000	110,750	--	
Issuance of common stock from exercise of warrants	200,000	200	--	
Net loss	--	--	--	(3,481,
	-----	-----	-----	-----
Balance at December 31, 1998	26,373,625	9,661,250	--	(11,107,
Issuance of stock for:				
Interest	100,000	30,000	--	
Cash	13,334	2,000	--	
Options exercised and waived option price	170,000	24,000	--	
Options issued for services	--	196,587	--	
Net loss	--	--	--	(1,031,
	-----	-----	-----	-----
Balance at December 31, 1999	26,656,959	9,913,837	--	(12,139,
Write-off of subscription receivable	--	--	--	
Issuance of stock for escrow receivable	5,500,000	500,000	--	

See accompanying notes

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	Common stock		Additional Paid in Capital	Accumula Defici
	Shares	Amount		
Reversal of shares issued	(81,538)	--	--	
Research and development costs	--	--	--	
Net loss	--	--	--	(281,
Balance at December 31, 2000	32,075,421	10,413,837	--	(12,421,
Issuance of common stock options for services	--	--	159,405	
Issuance of common stock for cash	660,000	99,000	--	
Issuance of common stock for services and interest	1,971,496	284,689	--	
Research and development costs	--	--	--	
Operating expenses	--	--	--	
Net loss	--	--	--	(1,529,
Balance at December 31, 2001	34,706,917	\$ 10,797,526	\$159,405	\$(13,950,

See accompanying notes

20

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2001 and 2000, and Cumulative Amounts Since
November 20, 1991 (Date of Inception)

	2001	2000
Cash flows from operating activities		
Net loss	\$ (1,529,658)	\$ (281,
Adjustments to reconcile net loss to net cash used by operating activities		

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Common stock options issued for services	159,405	
Common stock issued for services, expenses, and litigation	265,599	
Reduction of escrow receivable from research and development and operating expenses	157,300	115,
Reduction of legal costs	--	
Notes payable issued for litigation	385,000	
Depreciation	3,935	14,
Write-off of subscription receivables	--	112,
Impairment loss on assets	--	9,
Loss on disposal of equipment	--	
Gain on debt restructuring	--	
Write-off of receivables	--	
Changes in assets and liabilities		
Accounts receivable	--	
Inventory	--	99,
Deferred charges	(108,686)	
Other assets	--	
Accounts payable	322,661	(271,
Accrued expenses	87,144	84,
	-----	-----
Net cash used by operating activities	(257,300)	(115,
Cash flows from investing activities		
Purchase of equipment	--	
Payments received on note receivable	--	
	-----	-----
Net cash used by investing activities	--	
Cash flows from financing activities		
Contributed equity	--	
Issuance of common stock	99,000	
Payments on notes payable	(109,000)	
Proceeds from notes payable	250,000	133,
Payments on convertible notes payable	--	(7,
Proceeds from convertible notes payable	--	
	-----	-----
Net cash provided by financing activities	240,000	125,
	-----	-----
Net increase (decrease) in cash	(17,300)	9,
Cash, beginning of period	19,781	10,
	-----	-----
Cash, end of period	\$ 2,481	\$ 19,
	=====	=====
Supplemental disclosures of cash flow information		
Interest paid	\$ 76,874	\$
Noncash investing and financing activities		
Conversion of notes payable to common stock	\$ 19,090	\$

See accompanying notes

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NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Organization

Medical Discoveries, Inc. ("MDI" or the "Company") was incorporated under the laws of the State of Utah on November 20, 1991. Effective as of August 6, 1992, the Company merged with and into WPI Pharmaceutical, Inc., a Utah corporation ("WPI"), pursuant to which WPI was the surviving corporation. Pursuant to the MDI-WPI merger, the name of the surviving corporation was changed to Medical Discoveries, Inc. WPI was incorporated under the laws of the State of Utah on February 22, 1984 under the name Westport Pharmaceutical, Inc. Effective as of May 8, 1984, Westport Pharmaceutical, Inc. merged with and into Euripides Technology, Inc., a Utah corporation ("Euripides"), pursuant to which Euripides was the surviving corporation. Pursuant to the Westport-Euripides merger, the name of the surviving corporation was changed to Westport Pharmaceutical, Inc. Westport Pharmaceutical, Inc. subsequently changed its name to WPI Pharmaceutical, Inc. Euripides was incorporated under the laws of the State of Utah on November 9, 1983.

On July 6, 1998, the Company incorporated a wholly owned subsidiary, Regenere, Inc., in the State of Nevada. On October 2, 1998, the Company incorporated another wholly owned subsidiary, MDI Healthcare Systems, Inc., in the State of Nevada. Both subsidiaries were incorporated to undertake special purposes, neither of which is currently being pursued by the Company. Neither subsidiary currently has any operations or significant assets.

The consolidated financial statements include the accounts of Medical Discoveries, Inc. and subsidiaries, after elimination of significant intercompany items and transactions.

Development Stage Company

The Company has not generated any significant revenue and is, therefore, considered a development stage company as defined in the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 7. The Company has, at the present time, not paid any dividends and any dividends that may be paid in the future will depend upon the financial requirements of the Company and other relevant factors. The development stage commenced on November 20, 1991, which is the date of the inception.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments maturing in three months or less to be cash equivalents.

Deferred Charges

Deferred charges represent prepaid consulting fees. The consulting agreement and related terms are discussed in Note N.

Equipment

Capital additions are classified as equipment and are recorded at cost. Depreciation is recorded by use of the straight-line method.

Maintenance and repairs are charged to operations as incurred. When an asset is disposed of, accumulated depreciation is deducted from the original cost, and any gain or loss arising from its disposal is credited or charged to operations.

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Value of Financial Instruments

The Company has a number of financial instruments. The Company estimates that the fair value of all financial instruments, at December 31, 2001, do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

22

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these financial statements include those assumed in determining the valuation of stock options issued to non-employees as payment for services and determining the costs associated with prior service agreements. It is at least reasonably possible that the significant estimates used will change within the next year.

Earnings Per Share

Earnings per share are computed by dividing net income applicable to common shareholders by the weighted average number of shares outstanding. Common stock equivalents and stock options have not been included as they are anti-dilutive.

Reclassifications

Certain 2000 amounts have been reclassified to conform to the 2001 presentation.

Business and Concentration of Credit

The primary purpose of the business is the research and development of the sterilization of medical equipment and an anti-viral treatment for infectious diseases. The Company has no significant revenues and, therefore, no significant trade receivables or extensions of credit.

Recently Issued Accounting Statements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets". SFAS 141 requires business combinations to be accounted for by the purchase method starting July 1, 2001. SFAS 142 requires intangible assets to be amortized over their useful life if determinable. Intangible assets with indeterminable lives (such as goodwill) are no longer subject to amortization, rather they are subject to impairment by applying a fair-value-based test.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS 143 requires the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred. SFAS 143 will be effective for years beginning after June 15, 2002, although earlier adoption is permitted.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or

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Disposal of Long-Lived Assets". SFAS 144 slightly changes and clarifies the accounting for long-lived assets. SFAS 144 will be effective for years beginning after December 15, 2001, although earlier adoption is permitted

The Company believes that the adoption of these accounting standards will not have any material effect on the financial statements of the Company.

NOTE B -- GOING CONCERN

As shown in the accompanying financial statements, the Company incurred a net loss of \$1,529,658 during the year ended December 31, 2001 and has incurred losses since inception of \$11,762,829. As of December 31, 2001, the Company's stockholders' deficit is \$13,950,902. The Company has not had significant revenues and is still in the process of developing anti-viral treatments for infectious diseases, skin cleansing products and the sterilization of medical equipment. The Company is hopeful, but there is no assurance, that the current product development and research will be economically viable. Those factors create an uncertainty about the Company's ability to continue as a going concern.

The Company is dependent upon the sale of its common stock and short-term notes to satisfy its current cash operating needs. The Company is also looking into various applications of its technology and the possibilities of sales to or development funds from outside companies. Although management has been successful thus far in raising a minimal amount of capital for operations, there can be no assurance that the Company and its management will be able to continue to sell sufficient amounts of common stock or identify applications to bring the current product development to a point where it is economically viable. Management plans to meet its cash needs through the issuance of additional shares of common

23

stock, sales of product from its technologies and developmental funds from outside companies. The ability of the Company to continue as a going concern is dependent on that plan's success. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

NOTE C -- EQUIPMENT

Equipment consists of:

	2001
Office Equipment	\$ 37,944
Other Equipment	45,562

	83,506
Accumulated depreciation and amortization	(82,827)

	\$ 679
	=====

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The estimated useful lives of equipment is two to seven years.

NOTE D -- ASSET IMPAIRMENT

At September 30, 2000 the Company evaluated whether an impairment of the asset used to manufacture certain inventory existed due to the discontinuance of the sale and production of that type of inventory. The evaluation determined that an impairment does exist with respect to the equipment. The recognition of this impairment was in accordance with the provisions of SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of, and resulted in assets being written down to their estimated discounted cash flow. The non-cash impairment loss was \$9,709.

NOTE E -- ACCOUNTS PAYABLE

As discussed in Note A, the Company merged with WPI. At that time, WPI was carrying approximately \$265,000 of accounts payable owed to various vendors on its books. These payables were transferred to the books of the new entity. These payables have never been satisfied, and all collection attempts by any of the vendors have ceased for several years. During 2000, management and legal counsel determined that the payables were no longer valid obligations of the Company. The related reduction of the accounts payable balances has been included in the income statement in the caption "other income."

NOTE F -- NOTES PAYABLE

The Company has the following notes payable at December 31, 2001:

Notes payable to shareholders, which are currently due and in default. Interest is at 12%. The notes are unsecured.	\$336,717
Notes payable to shareholders, which are currently due and in default. Interest is at fixed lump sum amounts ranging from \$10,000 to \$40,000. The notes are unsecured.	141,000

	\$477,717
	=====

NOTE G -- CONVERTIBLE NOTES PAYABLE

As of December 31, 2001 and 2000, the Company owes \$193,200 in convertible notes payable to a trust. The notes have a stated interest rate of 12% and were due in 1998. Each \$1,000 note is convertible into 667 shares of the Company's common stock. As of December 31, 2001 the Company also owes \$50,000 in a convertible note payable to an entity. This note has a stated interest rate of 18% and is due on February 1, 2002. The note can be converted into 333,333 shares of the Company's common stock until February 1, 2002, after that date the note loses its convertible feature. Additionally, as of December 31, 2001, pursuant to the settlement of its dispute with Harvest Group, L.L.C. as described in Note M, the company reclassified \$115,000 of previously recorded notes payable to convertible notes payable and recorded an additional \$385,000 of convertible notes payable to bring the total due to Harvest Group, L.L.C. to \$500,000. The terms of this convertible note payable are described in Note M.

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NOTE H -- STOCK SUBSCRIPTION RECEIVABLE

The Company sold shares of its common stock to a private investor in exchange for a note receivable of \$112,500 in 1994. This note was written off in 2000 due to management's evaluation of uncertainty of collection. The write-off has been included in general and administrative expenses.

NOTE I -- INCOME TAXES

Income taxes are provided for temporary differences between financial and tax basis income. The components of net deferred taxes are as follows at December 31 using a combined deferred tax rate of 40%:

	Years Ended December 31,	
	2001	2000
Federal income tax benefit at statutory rate	\$466,000	\$ 113,000
State income tax benefit	82,000	20,000
Expiration of options	470,000	--
Change in valuation allowance	(78,000)	(133,000)
	\$ --	\$ --
	=====	=====

The net timing differences for deferred income tax assets are as follows:

	2001	2000
Net operating loss carryforward	\$ 3,565,000	\$ 3,017,000
Stock options	498,000	968,000
Accrued compensation	378,000	378,000
Valuation allowance	(4,441,000)	(4,363,000)
	\$ --	\$ --
	=====	=====

Inasmuch as it is not possible to determine when or if the net operating losses will be utilized, a valuation allowance has been established to offset the benefit of the utilization of the net operating losses.

The Company has available net operating losses of approximately \$8,910,000, which can be utilized to offset future earnings of the Company. The Company also has available approximately \$80,000 in research and development credits which expire in 2008. The utilization of the net operating losses and research and development credits are dependent upon the tax laws in effect at the time such losses can be utilized. The losses begin to expire between the years 2007 and 2021. Should the Company experience a change of ownership the utilization of net operating losses could be reduced.

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NOTE J -- STOCK OPTIONS AND WARRANTS

The Company has an incentive stock option plan wherein 4,000,000 shares of the Company's common stock can be issued. In addition, the Company has granted 2,249,341 warrants of which zero and 2,249,341 were outstanding at December 31, 2001 and 2000, respectively. The Company has granted stock options and warrants to certain officers and shareholders of the Company to purchase shares of the Company's common stock. A schedule of the options and warrants is as follows:

	Number of Warrants and Options -----	Warrants and Option Price Per Share -----
Outstanding at January 1, 2000	5,644,341	\$.15 to 3.00
Granted	100,000	.25
Exercised	--	--
Expired	(865,000)	.25 to 3.00
25		
Forfeited	(200,000)	.25

Outstanding at December 31, 2000	4,679,341	\$.25 to 1.00
Granted	1,450,000	.01 to .25
Exercised	--	--
Expired	(2,521,341)	.25 to 1.00
Forfeited	--	--

Outstanding at December 31, 2001	3,608,000	\$.01 to .50
=====		

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, which established financial accounting and reporting standards for stock-based compensation. This standard defines a fair value method of accounting for an employee stock option or similar equity instrument. This statement gives entities the choice between adopting the fair value method or continuing to use the intrinsic value method under Accounting Principles Board (APB) Opinion No. 25 with footnote disclosures of the pro forma effects if the fair value method had been adopted. The Corporation has opted for the latter approach. Had compensation expense for the Corporation's stock option plan been determined based on the fair value at the grant date for awards in 2001 and 2000 consistent with the provisions of FAS No. 123, the Corporation's results of operations would have been reduced to the pro forma amounts indicated below:

December 31,	

2001	2000

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	-----	-----
Net loss -- as reported	\$ (1,529,658)	\$ (281,767)
Net loss -- pro forma	\$ (1,529,658)	\$ (299,749)
Loss per share -- as reported	\$ (.05)	\$ (.01)
Loss per share -- pro forma	\$ (.05)	\$ (.01)

During 2001, there were no employee stock options granted and all previously granted employee stock options were fully vested.

The fair value of each option grant is estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	December 31,	
	-----	-----
	2001	2000
	-----	-----
Expected dividend yield	\$ --	\$ --
Expected stock price volatility	--	229%
Risk-free interest rate	--	5%
Expected life of options	--	1 year

The weighted average fair value of options granted during 2001 and 2000 were \$-- and \$.18, respectively.

The following table summarized information about fixed stock options outstanding at December 31, 2001.

Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
-----	-----	-----	-----	-----	-----
\$.25 to .50	3,608,000	2.1	\$.18	3,608,000	\$.18

NOTE K -- RELATED PARTY TRANSACTIONS

At December 31, 2001, the Company had accounts payable to current and former officers and directors totaling \$1,157,450 for services performed and costs incurred in behalf of the Company. The Company had notes payable to stockholders of the Company aggregating \$552,717 at December 31, 2001. Interest expense recorded on these notes was approximately \$130,000 and \$72,000 for 2001 and 2000, respectively.

NOTE L -- COMMITMENT REGARDING PEREGRINE STOCK AND SUBSEQUENT EVENT

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Peregrine Properties, LLC, a Utah limited liability company ("Peregrine"), has entered into an agreement to provide \$500,000 to the Company to fund testing and research steps necessary to continue development of MDI-P. The studies are funded through an escrow agent. As of December 31, 2000, the Company had deposited in escrow a single certificate for 5.5 million shares of common stock for these purposes. Through December 31, 2001, Peregrine had funded \$275,800 to the escrow, of which \$272,700 had been disbursed and recorded as research and development expense on the financial statements of the Company. The remaining \$227,300 to be expended under the agreement has been recorded on the balance sheet in equity under the caption escrow receivable. As expenditures are made from the escrow for research and development, the expenses are recorded on the books of the Company with a corresponding reduction in the escrow receivable. Under the original agreement, upon completion of the studies, the escrow agent was to disburse the 5.5 million shares to Peregrine and to disburse the research results to the Company. On March 22, 2002, the parties entered into an agreement the result of which was to partially close the escrow agreement to the extent of Peregrine's funding to date. On that date, 3,143,800 shares were distributed to Peregrine and all research conducted to date was disbursed to the Company. Additional research is ongoing, which will be funded by the remaining commitment from Peregrine.

NOTE M -- SETTLEMENT OF HARVEST JOINT VENTURE LITIGATION

As of November 29, 2001, the Company settled its ongoing dispute with Harvest Group, L.L.C. ("Harvest"). The settlement required the Company to deliver to Harvest a non-interest bearing, convertible promissory note (the "Note") in the principal sum of \$500,000 due on July 8, 2002 (the "Due Date") in full satisfaction of all current amounts owing on loans from Harvest and all of Harvest's other claims against the Company. Under the terms of the Note, Harvest's only recourse, if the Company does not satisfy the Note in full by the Due Date, is to convert the unpaid principal amount to unregistered shares of common stock of the Company.

Upon the expiration of the Due Date, any principal sum outstanding shall automatically convert to a number of shares of the Company's common stock equal to a percentage of the total number of shares then issued and outstanding, on a fully-diluted basis (including any unexercised, outstanding stock options or other rights to acquire stock), as follows:

Principal Sum Outstanding -----	Percentage of Common Stock Issued and Outstanding -----
\$1 - 400,000	20%
\$400,001 - 450,000	25%
\$450,001 - 500,000	30%

For example, if, as of the Due Date, the Company has 33,000,000 shares of common stock issued and outstanding, 2,000,000 options outstanding and not yet exercised, and the principal sum of \$410,000 remains unpaid as of the expiration of the Due Date, the Note will convert to 11,666,666 $([35,000,000 / (1 - 0.25)] - 35,000,000)$ shares of common stock of the Company. Notwithstanding the automatic conversion provisions, Harvest may, in its sole and absolute discretion, suspend the automatic conversion of the Note beyond the Due Date by providing written notice to the Company of such election no fewer than thirty (30) days prior to the Due Date. If Harvest suspends the conversion of the Note, the conversion shall remain suspended indefinitely unless and until Harvest elects to convert the Note by giving the Company at least thirty (30) days prior written notice of

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such election. During any such period of suspension of the automatic conversion of the Note, the Company may pay the principal sum due thereunder in whole or in part.

27

The settlement also prohibits the Company from certain sales, licensing and financing transactions concerning its patents until the Company has satisfied the Note. In addition, the agreement calls for the Company to receive all skin-care products inventory in Harvest's possession and a return of the Company's office furnishings that have been held by Harvest since the dispute arose.

NOTE N -- COMMITMENT REGARDING CONSULTING AGREEMENT

On March 22, 2001, the Company entered into an agreement with Marlin Toombs, a previous member of the Board of Directors. Mr. Toombs is to provide consulting services to the Company for the period March 22, 2001 through March 1, 2004. The costs associated with the services are:

- \$5,200 within 30 days of signing the agreement
- \$3,000 per month for the period April 1, 2001 through March 1, 2004
- Issuance of 878,000 shares of restricted common stock within 30 days of signing
- An option to purchase 200,000 of common stock at \$.25 per share, expiring December 31, 2005

The value of the stock and stock options issued to Mr. Toombs pursuant to this agreement has been recorded on the balance sheet as deferred charges and will be amortized over the period of the consulting agreement. For the year ended December 31, 2001, approximately \$70,000 of expense was recognized related to the agreement. Future minimum cash payments under the agreement are as follows:

2002	\$36,000
	36,000
2003	9,000

	\$81,000
	=====

NOTE O -- SUBSEQUENT EVENTS

On January 1, 2002, the Company granted Judy Robinett an option to purchase 500,000 shares of the Company's common stock at \$0.01 per share with an expiration date of January 1, 2005. The estimated cost of the option grant is \$60,000. On March 18, 2002, the Company granted two individuals an option to purchase 250,000 shares, in total, of the Company's common stock at \$0.10 per share with an expiration date of March 17, 2005. The estimated cost of the option grant is \$25,000.

As more fully described in Note L above, on March 22, 2002, the Company entered into a partial release agreement with Peregrine Properties, LLC with respect to the research funding agreement between the parties.

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On March 27, 2002, the Company entered into an Advisory Agreement with Euronet International, Inc., a New York City-based business and financial advisory firm. Under the terms of the agreement, Euronet International will seek to initiate a private placement of MDI stock to raise up to \$10 million. While details of the private placement have not been finalized, the parties anticipate a preferred stock offering to accredited investors via the Internet. The Company will need to secure shareholder approval to amend its articles of incorporation before the Company can offer preferred stock. A shareholder meeting is planned during the month of June 2002. The primary usage of proceeds from the offering will be to retire debt owing to former joint venture partner Harvest Group LLC, and to pursue an application with the FDA regarding MDI-P.

The Advisory Agreement has a 12-month term, subject to early termination by the Company if certain milestones are not satisfied. Under the Advisory Agreement, Euronet is entitled to the following compensation: (i) an initial retainer fee of 360,000 shares of common stock of the Company; (ii) a monthly retainer fee of \$6,000 per month for the term of the agreement; (iii) 4.9% of the issued and outstanding shares of common and preferred stock (if any) of the Company following the closing of a transaction generating proceeds to the Company of \$1 million or more; (iv) a warrant to purchase common stock of the company equal to 10% of any investment of \$1 million or more, exercisable for 5 years, with an exercise price equal to 120% of the price paid by investors; (v) 4% of gross proceeds received in the first year from specified strategic relationships established by Euronet between the Company and third parties, 2% of which is payable in cash and 2% of which is payable in common stock warrants exercisable within 3 years with an exercise price equal to 120% of the market price on the

28

date of issuance.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

DIRECTORS AND EXECUTIVE OFFICERS

The following table identifies the names, ages, and positions of all directors and executive officers of the Company as of March 25, 2001.

Name	Age	Positions
David R. Walker	57	Chairman, Board of Directors
Judy M. Robinett	49	Director and Chief Executive Officer
William J. Novick, Jr., Ph.D. ..	70	Director
Alvin Zidell	71	Director
Nilesh Desai, M.D.	52	Director

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All current directors are serving until their successors are elected.

David R. Walker joined the Board of Directors on May 2, 1996, and was appointed Chairman of the Board of Directors on May 10, 1998. He is currently General Manager of Sunheaven Farms in Prosser, Washington, a position he has held for over twenty years.

Judy M. Robinett has served as the Company's Chief Executive Officer since November, 2000, and on February 9, 2001, was elected by the Directors to fill a vacancy on the Board. Since 1994, she has owned and operated an international consulting company focused on strategic planning, finance, marketing, and distribution for entrepreneurs and established companies.

William J. Novick, Jr., Ph.D. has served as a Director since July 28, 1997. He previously held positions of Vice President and Chief Technical Officer for the Company. During the past five years, he has consulted on various pharmaceutical projects and research for Pharmacia, Upjohn, Park-Davis, Cubest, MRL, Aventis, Pfizer, Forest Labs and RPR.

Alvin Zidell has been a Director of the Company since December 1, 1993. In the past five years, he has served as a Vice President of Zidell Properties, a building company, President of Siding for Less, a siding installation company, and the owner of an investment company, Alvin Zidell Investments.

Neal Desai, M.D., has served as a Director of the Company since January of 1999. Dr. Desai is a Diplomate of the American Board of Internal Medicine, and is the owner of Victory Olive Medical Group in Burbank, California, where he has practiced internal medicine since 1980.

COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers and directors, and persons who beneficially own more than ten percent of the Company's stock, to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than ten-percent owners are required by applicable regulations to furnish the Company with copies of all Section 16(a) forms that they file. Based solely on a review of the copies of such forms furnished to the Company and written representations from certain persons, the Company believes that during the year ended December 31, 2001, persons subject to Section 16(a) reporting requirements filed the required reports on a timely basis.

29

ITEM 10. EXECUTIVE COMPENSATION.

The following table sets forth certain summary information concerning compensation paid by the Company to its Chief Executive Officer (the "Named Executive Officer") for the years ended December 31, 2001, 2000, and 1999.

No other executive officer of the Company received a total annual salary and bonus in excess of \$100,000 during the year ended December 31, 2001.

SUMMARY COMPENSATION TABLE

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Name and Principal Position	Fiscal Year Ended	Annual Compensation		Long-Term Compensation
		Salary (\$)	Bonus (\$)	Securities Underlying Options (#)
Judy Robinett, CEO	12/31/01	48,000	4,500 (a)	1,500,000
	12/31/00	20,000	--	--
	12/31/99	--	--	--

(a) Represents value of 30,000 shares of common stock of the Company granted on April 20, 2001, based on the closing price of the stock that day (\$0.15).

OPTIONS GRANTED IN LAST FISCAL YEAR

Name	Number of Securities Underlying Options	Percent of Total Options Granted to Employees in Fiscal Year	Exercise of Base Price	Market Price on Date of Grant	Expiration Date
Judy Robinett	1,000,000	100%	\$0.01	\$0.115	12/20/04

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION VALUES

Name	Shares Acquired on Exercise	Value Realized	Number of Unexercised Securities Underlying Options at FY-End Exercisable/Unexercisable	Value of Unexercised In-The-Money Options at FY-End (\$) Exercisable/Unexercisable
Judy Robinett	--	N/A	1,000,000/0	\$115,000/N/A

STOCK APPRECIATION RIGHTS AND LONG-TERM INCENTIVE PLAN AWARDS

The Company has never granted any freestanding stock appreciation rights and does not maintain any long-term incentive plans.

COMPENSATION OF DIRECTORS

The Company does not currently compensate directors for services provided as directors.

EMPLOYMENT CONTRACTS

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Judy M. Robinett, the Company's CEO, is an independent contractor without an employment agreement. She is currently paid a salary of \$180,000 per year. The Company provides no benefits to Ms. Robinett.

30

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT. The following table sets forth information regarding persons known by the Company to beneficially own, as defined by Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), more than 5% of the Company's common stock as of February 11, 2002, based solely on information regarding such ownership available to the Company in filings by such beneficial owners with the SEC on Schedules 13D and 13G. The following table also sets forth information regarding beneficial ownership of common stock as of February 11, 2002 by each of the directors and executive officers and by the directors and executive officers as a group. Except as set forth in the footnotes below, all such persons possess sole voting and investment power with respect to the shares listed.

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES AND NATURE OF BENEFICIAL OWNERSHIP (a)	RIGHT TO ACQUIRE WITHIN 60 DAYS OF FEBRUARY 28, 2002

CERTAIN BENEFICIAL OWNERS:		
None (c)		
DIRECTORS AND OFFICERS:		
David R. Walker	303,539	150,000
Judy M. Robinett	1,530,000	1,500,000
William J. Novick, Jr., Ph.D.	511,934	443,000
Alvin Zidell	617,062	485,000
Nilesh Desai, M.D.	334,081	75,000
ALL DIRECTORS AND EXECUTIVE OFFICERS AS A GROUP (5 PERSONS)	3,296,616	2,653,000

* Less than 1%

- (a) Amounts in Column 2 include shares listed in Column 3. For purposes of this table, shares are considered to be beneficially owned if the person directly or indirectly has the sole or shared power to vote or direct the voting of the securities or the sole or shared power to dispose of or direct the disposition of the securities. Shares are also considered beneficially owned if a person has the right to acquire the beneficial ownership of the shares within 60 days of February 28, 2002. Unless otherwise indicated in these footnotes, each stockholder has sole voting and investment power with respect to the shares beneficially owned.
- (b) The percentages shown are based upon the shares indicated in Column 2 and using the fully-diluted capitalization as of February 11, 2002 of 38,814,917 shares (including 34,706,917 shares issued and outstanding, plus outstanding options for an additional 4,108,000 shares).
- (c) As discussed in Note L to the financial statements, the Company has issued

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a certificate for 5,500,000 shares to Peregrine Properties LLC ("Peregrine") pursuant to a research funding arrangement being funded through escrow. Until Peregrine satisfies its funding obligations, Peregrine will not have beneficial ownership of those shares. However, those shares are deemed issued and outstanding for purposes of the percentage ownership calculations in this table. The 5,500,000 shares represent 14.6% of the total issued and outstanding shares of common stock of the Company as of February 11, 2002. Also, note that subsequent to February 11, 2002, 3,143,800 of the shares were released from escrow to Peregrine. See Note L to the financial statements for a further explanation.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

None.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.

31

(a) EXHIBITS.

The following documents are furnished as exhibits to this Form 10-KSB. Exhibits marked with an asterisk are filed herewith. The remainder of the exhibits previously have been filed with the Commission and are incorporated herein by reference.

NUMBER	EXHIBIT
3.1	Amended and Restated Articles of Incorporation of the Company (filed as Exhibit 3.1 to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1994, and incorporated herein by reference).
3.2	Amended Bylaws of the Company (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1994, and incorporated herein by reference).
10.1	JV Agreement dated as of June 28, 2000, among Medical Discoveries, Inc., Harvest Group, L.L.C. and Hydromedics, Inc. (f/k/a Advanced Sales Company, Inc.) (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2000, and incorporated herein by reference).
10.2	Mutual Release and Settlement Agreement dated as of November 29, 2001, among Medical Discoveries, Inc., Harvest Group, L.L.C. and Hydromedics, Inc. (f/k/a Advanced Sales Company, Inc.) (filed as Exhibit 10 to the Company's Current Report on Form 8-K on December 15, 2000 and incorporated herein by reference).
10.3	Advisory Agreement dated as of March 26, 2002, between Medical Discoveries, Inc. and Euronet International, Inc.*
16.1	Letter from Tanner + Co. dated December 15, 2000 (filed as Exhibit 99 to the Company's Current Report on Form 8-K on December 15, 2000 and incorporated herein by reference).

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- 16.2 Letter from Tanner + Co. dated January 4, 2001 (filed as Exhibit 16 to the Company's Current Report on Form 8-K/A on January 4, 2001 and incorporated herein by reference).
- 21 Subsidiaries of the Registrant.*

 * Filed herewith.

(b) REPORTS ON FORM 8-K.

The Company filed a current report on Form 8-K with the Commission on December 6, 2001 relating to the settlement with Harvest Group, L.L.C. discussed in Item 3 above.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MEDICAL DISCOVERIES, INC.

/s/ Judy M. Robinett

 Judy M. Robinett
 Chief Executive Officer
 Date: March 29, 2002

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

NAME -----	POSITION -----	DATE -----
/s/ Judy M. Robinett ----- Judy M. Robinett	Chief Executive Officer and Director (Principal Executive and Financial Officer)	March 29, 2002
/s/ David R. Walker ----- David R. Walker	Chairman of the Board of Directors Director	March 29, 2002

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William J. Novick, Jr. Ph.D.

/s/ Alvin Zidell

Director

April 1, 2002

Alvin Zidell

Director

Nilesh Desai, M.D.

33

INDEX TO EXHIBITS

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10.2	Mutual Release and Settlement Agreement dated as of November 29, 2001, among Medical Discoveries, Inc., Harvest Group, L.L.C. and Hydromedics, Inc. (f/k/a Advanced Sales Company, Inc.) (filed as Exhibit 10 to the Company's Current Report on Form 8-K on December 15, 2000 and incorporated herein by reference).
10.3	Advisory Agreement dated as of March 26, 2002, between Medical Discoveries, Inc. and Euronet International, Inc.*
16.1	Letter from Tanner + Co. dated December 15, 2000 (filed as Exhibit 99 to the Company's Current Report on Form 8-K on December 15, 2000 and incorporated herein by reference).
16.2	Letter from Tanner + Co. dated January 4, 2001 (filed as Exhibit 16 to the Company's Current Report on Form 8-K/A on January 4, 2001 and incorporated herein by reference).
21	Subsidiaries of the Registrant.*

* Filed herewith.

