

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-QSB

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2002

☐ **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.

(Exact name of Small Business Issuer as specified 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)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 preceding 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 ☐

APPLICABLE ONLY TO CORPORATE ISSUERS:

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of July 24, 2002, there were 36,030,119 shares of the issuer's Common Stock outstanding.

Transitional Small Business Disclosure Format (check one): Yes ☐ No ☒

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The following financial statements are filed with this report:

Condensed Consolidated Balance Sheet as of June 30, 2002, (unaudited) and December 31, 2001

Condensed Consolidated Statements of Operations for the three- and six-month periods ended June 30, 2002 (unaudited) and June 30, 2001 (unaudited) and cumulative amounts since inception through June 30, 2002 (unaudited)

Condensed Consolidated Statements of Cash Flows for the six-month periods ended June 30, 2002 (unaudited) and June 30, 2001 (unaudited) and cumulative amounts since inception through June 30, 2002 (unaudited)

Notes to Unaudited Financial Statements

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED BALANCE SHEET
As of June 30, 2002 (Unaudited) and December 31, 2001

	June 30, 2002	December 31, 2001
Current assets		
Cash	\$ 871	\$ 2,481
Current portion of deferred charges	48,304	48,305
	<u>49,175</u>	<u>50,786</u>
Equipment, at cost, net of accumulated depreciation	—	679
Deferred charges, less current portion	36,229	60,381
	<u>85,404</u>	<u>111,846</u>
Total assets	\$ 85,404	\$ 111,846
Current liabilities		
Accounts payable	\$ 2,176,114	\$ 1,832,340
Accrued interest	280,197	279,860
Current portion of notes payable	394,217	477,717
Convertible notes payable	948,201	743,200
	<u>3,798,729</u>	<u>3,333,117</u>
Total current liabilities	3,798,729	3,333,117
Stockholders' deficit		
Escrow receivable	(227,300)	(227,300)
Additional paid in capital	244,367	159,405
Common stock, no par value, authorized 100,000,000 shares; 35,730,119 and 34,706,917 shares issued and outstanding at June 30, 2002 and December 31, 2001, respectively	11,043,141	10,797,526
Accumulated deficit	(14,773,533)	(13,950,902)
	<u>(3,713,325)</u>	<u>(3,221,271)</u>
Total stockholders' deficit	(3,713,325)	(3,221,271)
	<u>\$ 85,404</u>	<u>\$ 111,846</u>

See notes to consolidated financial statements

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Periods Ended June 30, 2002 and June 30, 2001, and Cumulative Amounts
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		Cumulative Amounts Since November 20, 1991 (Date of Inception)
	2002	2001	2002	2001	
Revenues	\$ —	\$ —	\$ —	\$ —	\$ 134,104
Cost of goods sold	—	—	—	—	10,526
Gross profit	—	—	—	—	123,578
Research and development expenses	—	—	—	132,300	2,521,741
Inventory writedown	—	—	—	—	96,859
Impairment loss	—	—	—	—	9,709
License	—	—	—	—	1,001,500
General and administrative expenses	385,347	557,163	679,709	642,528	10,042,364
Operating loss	(385,347)	(557,163)	(679,709)	(774,828)	(13,548,595)
Other income (expense)					
Interest income	—	—	—	—	23,406
Other income	500	—	500	—	269,426
Interest expense	(121,317)	(45,739)	(143,422)	(89,924)	(565,233)
	(120,817)	(45,739)	(142,922)	(89,924)	(272,401)
Loss before income taxes and extraordinary item	(506,164)	(602,902)	(822,631)	(864,752)	(13,820,996)
Income taxes	—	—	—	—	—
Forgiveness of debt net of \$0 income taxes	—	—	—	—	1,235,536
Net loss available to shareholders	\$ (506,164)	\$ (602,902)	\$ (822,631)	\$ (864,752)	\$(12,585,460)
Net loss per share					
Continuing operations	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ (0.62)
Extraordinary item	—	—	—	—	0.06
Net loss per share	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ (0.56)
Weighted average shares outstanding	34,706,917	32,075,421	35,035,991	32,325,804	22,204,984

See accompanying notes

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Periods Ended June 30, 2002 (Unaudited) and June 30, 2001 (Unaudited), and Cumulative Amounts

	For the Six Months Ended June 30,		Cumulative Amounts Since November 20, 1991 (Date of Inception)
	2002	2001	
Cash flows from operating activities			
Net loss	\$(822,631)	\$(864,752)	\$(13,373,956)
Adjustments to reconcile net loss to net cash used by operating activities			
Common stock options issued for services	84,962	—	2,801,257
Common stock issued for services, expenses, and litigation	117,011	64,120	3,942,596
Reduction of escrow receivable from research and development	—	132,300	272,700
Reduction of legal costs	—	—	(130,000)
Notes payable issued for litigation	—	385,000	385,000
Depreciation	679	2,658	100,271
Write-off of subscription receivables	—	—	112,500
Impairment loss on assets	—	—	9,709
Loss on disposal of equipment	—	—	30,364
Gain on debt restructuring	—	—	(1,235,536)
Write-off of receivables	—	—	193,965
Changes in assets and liabilities			
Deferred charges	24,153	—	(84,533)
Accounts receivable	—	—	(7,529)
Inventory	—	—	—
Other assets	—	—	—
Accounts payable	343,774	20,551	2,020,205
Accrued expenses	45,441	89,924	346,782
Net cash used by operating activities	(206,611)	(170,199)	(4,616,205)
Cash flows from investing activities			
Purchase of equipment	—	—	(132,184)
Payments received on note receivable	—	—	130,000
Net cash used by investing activities	—	—	(2,184)
Cash flows from financing activities			
Contributed equity	—	—	131,374
Issuance of common stock	—	—	3,354,359
Payments on notes payable	—	(35,000)	(206,287)
Proceeds from notes payable	—	200,000	916,613
Payments on convertible notes payable	—	—	(98,500)
Proceeds from convertible notes payable	205,001	—	521,701
Net cash provided by financing activities	205,001	165,000	4,619,260
Net increase (decrease) in cash	(1,610)	(5,199)	871
Cash, beginning of period	2,481	19,781	—
Cash, end of period	\$ 871	\$ 14,582	\$ 871
Supplemental disclosure of non-cash activities			
Repayment of accrued interest through issuance of common stock	\$ 45,104	\$ —	
Retirement of notes payable through issuance of common stock	\$ 83,500	\$ —	
Conversion of notes payable to common stock	\$ —	\$ 19,090	

See notes to consolidated financial statements

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A Development Stage Company)
NOTES TO UNAUDITED FINANCIAL STATEMENTS
June 30, 2002

Note 1. Unaudited Interim Financial Statements.

The accompanying unaudited financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments and disclosures necessary to a fair presentation of these financial statements have been included. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2001 Annual Report on Form 10-KSB for the year ended December 31, 2001, as filed with the Securities and Exchange Commission. Certain reclassifications and other corrections for rounding have been made in prior period financial statements to conform to the current period presentation. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation.

Note 2. Going Concern Considerations.

The Company's recurring losses from the Company's development-stage activities in current and prior years raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible effects on the recoverability and classification of assets or amounts and classifications of liabilities that may result from the possible inability of the Company to continue as a going concern. The Company is attempting to raise additional capital to sustain operations. However, there can be no assurance that these plans will be successful.

Note 3. Commitment Regarding Peregrine Stock.

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 June 30, 2002, 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 4. Subsequent Event Regarding Conversion of Harvest Note.

As of November 14, 2001, the Company settled its ongoing dispute with Harvest Group, L.L.C. ("Harvest"). Under the settlement, the Company delivered 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. The Note has been recorded under "current liabilities — convertible notes payable" on the June 30, 2002 balance sheet.

Subsequent to June 30, the Company did not repay any portion of the Note as of the Due Date. Therefore, under the terms of the Note, the unpaid principal amount due was automatically converted to the right to receive 17,116,337 unregistered shares of common stock of the Company. Harvest has tendered the original Note to the Company and the Company has instructed its transfer agent to issue a certificate to Harvest.

ITEM 2. 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 2 through 7 and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2001 (the "2001 10-KSB").

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" below and elsewhere in this report.

Overview

Medical Discoveries, Inc. (the "Company" or "MDI") has developed a product (hereafter "MDI-P") that appears to have the ability to destroy certain viruses, bacteria and fungi, 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.

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-microbial effect.

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.

MDI is a development stage company. To date, the Company has not generated significant revenues from operations or realized a profit. The Company is presently investing all of its resources in the testing, development and commercialization of MDI-P and its other technologies. The Company is attempting to raise additional funding to continue development of its technologies and to submit its technologies to appropriate regulatory agencies to secure approvals when required for the marketing and use of its products.

Recent Events

Conversion of Harvest Group Promissory Note. On July 8, 2002, the \$500,000 convertible promissory note (the "Note") made by the Company in favor of Harvest Group, L.L.C. ("Harvest") automatically converted to the right to receive 17,116,337 unregistered shares of common stock of the Company. The Note was made as of November 14, 2001 to settle previously-reported litigation between Harvest and the Company. The Company did not repay any of the principal amount of the Note as of the maturity date (July 8, 2002), which triggered the Notes' automatic conversion provision. Harvest has tendered the original Note to the Company and the Company has instructed its transfer agent to issue the shares due. Upon issuance of the 17,116,337 shares, Harvest will own 30% of the outstanding stock of the Company on a fully-diluted basis.

Euronet International Advisory Agreement. As previously reported, on March 26, 2002, the Company entered into an Advisory Agreement with Euronet International, Inc., a New York City-based business and financial advisory firm. The Advisory Agreement had a 12-month term, subject to early termination by the Company if certain milestones are not satisfied. Euronet has failed to achieve any of the milestones and the Company terminated the

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Advisory Agreement as of August 8, 2002.

Employment Agreement with Judy Robinett. On or about August 12, 2002, the Company and its CEO, Judy Robinett, entered into an Employment Agreement dated effective May 15, 2002, a copy of which is attached hereto as Exhibit 10.4. Under the terms of the Employment Agreement, Ms. Robinett is due a signing bonus of \$200,000 and is to receive a salary of \$200,000 per year. Prior to entering into the Employment Agreement, Ms. Robinett's salary was \$180,000 per year.

Adoption of 2002 Stock Incentive Plan. On July 11, 2002, the Company's Board of Directors adopted the 2002 Stock Incentive Plan, a copy of which is attached hereto as Exhibit 10.5.

Results of Operations

Revenues and Gross Profit. The Company booked no revenue for the quarter ended June 30, 2002, nor was any revenue booked for the quarter ended June 30, 2001. The Company does not anticipate booking significant revenues in the near future as it continues to focus on getting products to market.

Operating Expenses and Operating Loss. The Company did not spend any funds on research and development for the quarter ended June 30, 2002, nor were any such funds expended during the same quarter of 2001. The Company's general and administrative expenses were \$385,347 during the second quarter of 2002, as compared to \$557,163 during the quarter ended June 30, 2001. As a result of the foregoing, the Company sustained an operating loss of \$385,347 for the quarter ended June 30, 2002, as compared with an operating loss of \$557,163 for the same period of 2001. Year-to-date, the Company's general and administrative expenses and resulting operating loss were \$679,709. By comparison, the Company booked \$642,528 in general and administrative expenses and \$132,300 in research and development expenses resulting in an operating loss of \$774,828 in the first 6 months of 2001.

Other Income/Expense and Net Loss. The Company booked \$500 of other income and incurred interest expenses of \$121,317 for the quarter ended June 30, 2002, as compared with no income and \$45,739 in interest expenses for the same period of 2001. The increase in interest expense reflects the need for the Company to use high interest notes to continue operations. In sum, the Company's net loss for the second quarter of 2002 was \$506,164 or a loss of \$0.01 per fully diluted share. For the quarter ended June 30, 2001, the Company incurred a net loss of \$602,902, a loss of nearly \$0.02 per fully diluted share. For the six months ended June 30, 2002, the Company incurred a net loss of \$822,631, or \$0.02 per fully diluted shares, as compared with a net loss of \$864,752 or \$0.03 per share for the same period of 2001.

Future 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 during the remainder of 2002 in research and development and general and administrative expenses, and thereby sustain greater resulting losses, than it has in recent years.

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 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

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 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. Those risks and uncertainties include, but are not limited to, our lack of significant operating revenue to date, our need for substantial and immediate additional capital, the fact that we may dilute existing shareholders through additional stock issuances, the extensive governmental regulation to which we are subject, the fact that our technologies remain unproven, the intense competition we face from other companies and other products, and our reliance upon potentially inadequate intellectual property. Those risks and certain other uncertainties are discussed in more detail in the 2001 10-KSB. There may also be other factors, including those discussed elsewhere in this report, that may cause the Company’s actual results to differ 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.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES

(c) The Company sold the following securities during the period covered by this report:

- (i) \$50,000 convertible promissory note dated April 8, 2002, convertible to common stock of the Company at the rate of \$.125 per share.
- (ii) \$50,000 convertible promissory note dated April 21, 2002, convertible to common stock of the Company at the rate of \$0.125 per share.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(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.

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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. (filed as Exhibit 10.3 to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2001, and incorporated herein by reference).
10.4	Employment Agreement dated as of May 15, 2002 between Medical Discoveries, Inc. and Judy M. Robinett.*
10.5	2002 Stock Incentive Plan (adopted by the Board of Directors as of July 11, 2002).*
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).
99	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith

(b) Reports on Form 8-K.

The Company filed no reports on Form 8-K during the quarter ended June 30, 2002.

SIGNATURES

In accordance with the requirements 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: August 14, 2002

EXHIBIT INDEX

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* Filed herewith.

EMPLOYMENT AGREEMENT

This Employment Agreement ("AGREEMENT"), dated as of May 15, 2002 ("EFFECTIVE DATE"), is between Medical Discoveries, Inc., a Utah corporation ("MDI"), and Judy M. Robinett, an individual ("EXECUTIVE").

1. EMPLOYMENT RELATIONSHIP / POSITION / DUTIES.

1.1 EMPLOYMENT RELATIONSHIP. As of the Effective Date, Executive shall be employed by MDI as President and Chief Executive Officer. Executive and MDI acknowledge that either party may terminate this employment relationship at any time and for any or no reason, subject to the obligation of MDI to provide the severance benefits specified in this Agreement.

1.2 POSITION. Executive will serve MDI as its President and Chief Executive Officer.

1.3 DUTIES. Executive will, during the term of this Agreement, faithfully and diligently perform all such acts and duties, and furnish such services, as the Board of Directors of MDI shall reasonably direct and are consistent with the position of President and Chief Executive Officer. Executive will devote such time, energy, and skill to the business of MDI as shall reasonably be required for such performance of her duties.

2. TERM OF EMPLOYMENT. Unless sooner terminated in accordance with this Agreement, the term of employment will be for the period commencing on the Effective Date and ending on the third anniversary of the Effective Date (the "TERM"); provided, however, that in the event of a Change of Control (as defined in Section 5.4(c)) during said three-year period, the Term shall extend to the later of (i) said three-year period or (ii) 12 months following the Change of Control.

3. SALARY AND BONUS. MDI will pay Executive (i) base pay at an annual rate of \$200,000, plus (ii) bonus payments as part of MDI's annual management bonus program. Executive's incentive eligibility under the bonus program shall be such that performance at the target levels established by the Board of Directors for an annual bonus performance period would result in an incentive payment equal to 50% of Executive's base pay.

4. OTHER BENEFITS.

4.1 SIGNING BONUS. MDI agrees to pay Executive a signing bonus of \$200,000, subject to all applicable withholding requirements, payable upon execution of this Agreement.

4.2 EMPLOYEE BENEFIT PROGRAMS. Executive will be eligible to participate in all employee benefit programs established by MDI that are applicable to management personnel such as medical, pension, 401(k), disability and life insurance plans on the same basis as other

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employees of MDI from time to time, but nothing herein shall require the adoption or maintenance by MDI of any specific plans.

4.3 VACATIONS AND HOLIDAYS. Executive will be provided such holidays, sick leave and vacation as MDI makes available to its management level employees generally; provided, however, that Executive shall be entitled to not less than four weeks' paid vacation in each twelve month period.

4.4 EXPENSES. MDI will reimburse Executive in accordance with company policies and procedures for reasonable expenses (including travel expenses) necessarily incurred in the performance of duties hereunder against appropriate receipts and vouchers indicating the specific business purpose for each such expenditure. In addition, MDI shall provide Executive with a cellular phone and a monthly calling plan of Executive's choosing.

4.5 VEHICLE. MDI shall provide Executive with the use of a company-owned vehicle.

5. COMPENSATION UPON TERMINATION.

5.1 TERMINATION WITHOUT CAUSE. In the event of a Termination of Executive's Employment (as defined in Section 5.4(a)) at any time during the Term other than for Cause (as defined in Section 5.4(b)), death, or Disability (as defined in Section 5.4(d)), and contingent upon Executive's execution of the Release of Claims (as defined in Section 5.3) and compliance with Section 10, Executive shall be entitled to receive as severance pay an amount in cash equal to Executive's annual base pay at the rate in effect immediately prior to the date of termination for a period equal to the longer of two years or the unexpired portion of the Term. MDI shall pay Executive such amount in a single payment after employment has ended and eight days have passed following

execution of the Release of Claims without revocation. This severance pay shall be in lieu of any other compensation for periods after the date of termination.

5.2 TERMINATION FOR CAUSE, DEATH, OR DISABILITY. Upon Termination of Executive's Employment at any time during the Term for Cause, death, or Disability, Executive will be paid her compensation through the date of termination and will have no rights to payments after the termination date.

5.3 RELEASE OF CLAIMS. In consideration for and as a condition precedent to receiving the severance benefits outlined in Section 5.1 and elsewhere in this Agreement, Executive agrees to execute a comprehensive release of claims/non-disparagement agreement in a form acceptable to MDI ("RELEASE OF CLAIMS"). Executive promises to execute and deliver the Release of Claims to MDI within the later of (i) 45 days from the date Executive receives the Release of Claims or (ii) the last day of Executive's active employment.

5.4 DEFINITIONS.

(a) Termination of Executive's Employment. Termination of Executive's Employment means that MDI has terminated Executive's employment with MDI (including any

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subsidiary of MDI). If Executive is assigned additional or different titles, tasks or responsibilities from those currently held or assigned, consistent with Executive's areas of professional expertise and with no decrease in annual base compensation, whether at MDI or any subsidiary of MDI, such circumstances shall not constitute a Termination of Executive's Employment. Termination of Executive's Employment shall include termination by resignation of Executive, within 12 months of a Change of Control, by written notice to MDI referring to the applicable paragraph of Section 5.4(a), for "Good Reason" based on:

(i) the assignment to Executive of a different title, job or responsibilities that results in a decrease in the level of responsibility of Executive with respect to the surviving company after the Change of Control when compared to Executive's level of responsibility for MDI's operations prior to the Change of Control; provided that Good Reason shall not exist if Executive continues to have the same or a greater general level of responsibility for the former MDI operations after the Change of Control as Executive had prior to the Change of Control even if the former MDI operations are a subsidiary or division of the surviving company;

(ii) a reduction by MDI or the surviving company in Executive's base pay as in effect immediately prior to the Change of Control;

(iii) a significant reduction by MDI or the surviving company in total benefits available to Executive under cash incentive, stock incentive and other employee benefit plans after the Change of Control compared to the total package of such benefits as in effect prior to the Change of Control; or

(iv) MDI or the surviving company requires Executive to be based more than 50 miles from where Executive's office is located immediately prior to the Change of Control except for required travel on company business to an extent substantially consistent with the business travel obligations that Executive undertook on behalf of MDI prior to the Change of Control.

(b) Cause. Termination of Executive's Employment for "Cause" shall mean termination upon (i) the willful and continued failure by Executive to perform substantially Executive's reasonably assigned duties with MDI (other than any such failure resulting from Executive's incapacity due to physical or mental illness) after a demand for substantial performance is delivered to Executive by the Board of Directors of MDI which specifically identifies the manner in which the Board believes that Executive has not substantially performed Executive's duties or (ii) the willful engaging by Executive in illegal or dishonest conduct which is materially and demonstrably injurious to MDI. No act, or failure to act, on Executive's part shall be considered "willful" unless done, or omitted to be done, by Executive without reasonable belief that Executive's action or omission was in, or not opposed to, the best interests of MDI. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the

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Board or based upon the advice of counsel for MDI shall be conclusively presumed to be done, or omitted to be done, by Executive in the best interests of MDI.

(c) Change of Control. A Change of Control shall mean that one of the following events has taken place:

(i) The consummation of a merger or consolidation of MDI with or into another entity or any other corporate reorganization, if more than 50% of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of MDI immediately prior to such merger, consolidation or other reorganization; or

(ii) the sale, transfer or other disposition of all or substantially all of MDI's assets; or

(iii) A change in the composition of the Board of Directors, as a result of which fewer than one-half of the incumbent directors are directors who either:

(1) Had been directors of MDI 24 months prior to such change; or

(2) Were elected, or nominated for election, to the Board of Directors with the affirmative votes of at least a majority of the directors who had been directors of MDI 24 months prior to such change and who were still in office at the time of the election or nomination.

A transaction shall not constitute a Change of Control if its sole purpose is to change the state of MDI's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held MDI's securities immediately before such transaction. In addition, notwithstanding anything in the foregoing to the contrary, no Change of Control shall be deemed to have occurred for purposes of this Agreement by virtue of any transaction which results in Executive, or a group of persons which includes Executive, acquiring, directly or indirectly, securities representing 20% or more of the voting power of outstanding securities of MDI.

(d) Disability. Termination of Executive's Employment based on "Disability" shall mean termination without further compensation under this Agreement, due to Executive's absence from Executive's full-time duties with MDI for an aggregate of 90 days in any period of 180 consecutive days as a result of Executive's incapacity due to physical or mental illness, unless within 30 days after notice of termination by MDI following such absence Executive shall have returned to the full-time performance of Executive's duties.

5.5 GROSS-UP PAYMENT. Notwithstanding anything in this Agreement to the contrary, if any payment pursuant to this Agreement (each a "PAYMENT") is subject to the excise tax

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imposed on "excess parachute payments" by Section 4999 of the Internal Revenue Code of 1986, as amended (the "CODE") (such excise tax, together with any interest or penalties thereon, is herein referred to as an "EXCISE TAX"), then Executive shall be entitled to an additional payment (a "GROSS-UP PAYMENT") such that the net amount retained by the Executive, after deduction of any Excise Tax on the Payment and any federal, state and local income tax and Excise Tax upon the Gross-Up Payment, shall be equal to the Payment. No Gross-Up Payment shall be payable under this Section 5.5 if the Payment is not subject to an Excise Tax.

6. CONFIDENTIAL INFORMATION.

6.1 Executive recognizes that MDI's business and continued success depend upon the use and protection of confidential and proprietary business information concerning MDI and its business (all such information being "CONFIDENTIAL INFORMATION"). For purposes of this Agreement, the phrase "Confidential Information" includes, for MDI and its current or future subsidiaries and affiliates, without limitation, and whether or not specifically designated as confidential or proprietary: all business plans and marketing strategies; information concerning existing and prospective markets and customers; financial information; information concerning the development of new products and services; and technical and non-technical data related to designs, specifications, compilations, inventions, improvements, methods, processes, procedures and techniques; provided, however, that the phrase does not include information that (a) was lawfully in Executive's possession prior to disclosure of such information by MDI; (b) was, or at any time becomes, available in the public domain other than through a violation of this Agreement or any other confidentiality agreement maintained by MDI; (c) is documented by Executive as having been developed by Executive outside the scope of Executive's employment and independently; or (d) is furnished to Executive by a third party not under an obligation of confidentiality to MDI.

6.2 Executive agrees that Executive will use Confidential Information only for the benefit of MDI and will not directly or indirectly use or divulge,

or permit others to use or divulge, any Confidential Information for any reason, except as authorized by MDI. Executive's obligation under this Agreement is in addition to any obligations Executive has under state or federal law. Executive agrees to deliver to MDI immediately upon termination of Executive's employment, or at any time MDI so requests, all tangible items containing any Confidential Information (including, without limitation, all memoranda, computer storage devices, photographs, records, reports, manuals, drawings, blueprints, prototypes, notes taken by or provided to Executive, and any other documents or items of a confidential nature belonging to MDI), together with all copies of such material in Executive's possession or control. Executive agrees that in the course of Executive's employment with MDI, Executive will not violate in any way the rights that any entity has with regard to trade secrets or proprietary or confidential information. Executive's obligations under this Section 6 are indefinite in term and shall survive the termination of this Agreement.

7. WORK PRODUCT AND TRADEMARKS, TRADENAMES AND COPYRIGHTS. Executive agrees that all right, title and interest in and to all trademarks, tradenames and copyrights, registered or unregistered, used by MDI in its business (the "BUSINESS") are the property of MDI, and

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Executive will not during the term of her employment or thereafter use or, to the extent of her ability to do so, permit others to use such trademarks, tradenames and copyrights except as permitted by MDI. Further, Executive agrees that all right, title and interest in and to the materials resulting from the performance of Executive's duties to MDI and all copies thereof, including works in progress, in whatever media, (the "WORK"), will be and remain in MDI upon their creation. Executive will mark all Work with MDI's copyright or other proprietary notice as directed by MDI. Executive further agrees:

7.1 To the extent that any portion of the Work constitutes a work protectable under the copyright laws of the United States (the "COPYRIGHT LAW"), that all such Work will be considered a "work made for hire" as such term is used and defined in the Copyright Law and that MDI will be considered the "author" of such portion of the Work and the sole and exclusive owner throughout the world of copyright therein; and

7.2 If any portion of the Work does not qualify as a "work made for hire" as such term is used and defined in the Copyright Law, that Executive hereby assigns and agrees to assign to MDI, without further consideration, all right, title and interest in and to such Work or in any such portion thereof and any copyright therein and further agrees to execute and deliver to MDI, upon request, appropriate assignments of such Work and copyright therein and such other documents and instruments as MDI may request to fully and completely assign such Work and copyright therein to MDI, its successors or nominees, and that Executive hereby appoints MDI as attorney-in-fact to execute and deliver any such documents on Executive's behalf in the event Executive should fail or refuse to do so within a reasonable period following MDI's request.

8. INVENTIONS AND PATENTS. For purposes of this Agreement, "Inventions" includes, without limitation, information, inventions, contributions, improvements, ideas, or discoveries, whether patentable or not, and whether or not conceived or made during work hours. Executive agrees that all Inventions conceived or made by Executive during the period of employment with MDI belong to MDI, provided they grow out of Executive's work with MDI or are related in some manner to the Business, including, without limitation, research and product development, and projected business of MDI or its affiliated companies. Accordingly, Executive will:

8.1 Make adequate written records of such Inventions, which records will be MDI's property;

8.2 Assign to MDI, at its request, any rights Executive may have to such Inventions for the U.S. and all foreign countries;

8.3 Waive and agree not to assert any moral rights Executive may have or acquire in any Inventions and agree to provide written waivers from time to time as requested by MDI; and

8.4 Assist MDI (at MDI's expense) in obtaining and maintaining patents or copyright registrations with respect to such Inventions.

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Executive understands and agrees that MDI or its designee will determine, in its sole and absolute discretion, whether an application for patent will be filed on any Invention that is the exclusive property of MDI, as set forth above, and whether such an application will be abandoned prior to issuance of a patent. MDI will pay to Executive, either during or after the term of this Agreement, the following amounts if Executive is sole inventor, or Executive's proportionate share if Executive is joint inventor: \$750 upon filing of the initial application for patent on such Invention; and \$1,500 upon

issuance of a patent resulting from such initial patent application, provided Executive is named as an inventor in the patent.

Executive further agrees that Executive will promptly disclose in writing to MDI during the term of Executive's employment and for one year thereafter, all Inventions whether developed during the time of such employment or thereafter (whether or not MDI has rights in such Inventions) so that Executive's rights and MDI's rights in such Inventions can be determined. Executive represents and warrants that Executive has no Inventions, software, writings or other works of authorship useful to MDI in the normal course of the Business, which were conceived, made or written prior to the date of this Agreement and which are excluded from the operation of this Agreement

9. REMEDIES. Notwithstanding other provisions of this Agreement regarding dispute resolution, Executive agrees that Executive's violation of any of Sections 6, 7, or 8 of this Agreement would cause MDI irreparable harm which would not be adequately compensated by monetary damages and that an injunction may be granted by any court or courts having jurisdiction, restraining Executive from violation of the terms of this Agreement, upon any breach or threatened breach of Executive of the obligations set forth in any of Sections 6, 7, or 8. The preceding sentence shall not be construed to limit MDI from any other relief or damages to which it may be entitled as a result of Executive's breach of any provision of this Agreement, including Sections 6, 7, or 8.

10. RESIGNATION OF CORPORATE OFFICES. Executive will resign Executive's office, if any, as a director, officer or trustee of MDI, its subsidiaries or affiliates and of any other corporation or trust of which Executive serves as such at the request of MDI, effective as of the date of Termination of Executive's Employment. Executive agrees to provide MDI such written resignation(s) upon request and that no severance will be paid until after such resignation(s) are provided.

11. DISPUTE RESOLUTION. Except for the right of MDI and Executive to seek injunctive relief in court, any controversy, claim or dispute of any type arising out of or relating to Executive's employment or the provisions of this Agreement shall be resolved in accordance with this Section 11, which will be the sole and exclusive procedure for the resolution of any disputes. Matters subject to these provisions include, without limitation, claims or disputes based on statute, contract, common law and tort and will include, for example, matters pertaining to termination, discrimination, harassment, compensation and benefits. Matters to be resolved under these procedures also include claims and disputes arising out of statutes such as Title VII of the Civil Rights Act and the Age Discrimination in Employment Act. Nothing in this

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provision is intended to restrict Executive from submitting any matter to an administrative agency with jurisdiction over such matter.

11.1 COMPLIANCE WITH MDI POLICY. Executive and MDI will make a good faith attempt to resolve all disputes in accordance with any dispute resolution policy adopted by MDI before resorting to any other dispute resolution procedure.

11.2 MEDIATION. MDI and Executive will make a good faith attempt to resolve any and all claims and disputes not resolved in accordance with Section 11.1 by submitting them to mediation in Salt Lake City, Utah before resorting to arbitration or any other dispute resolution procedure. The mediation of any claim or dispute must be conducted in accordance with the then-current American Arbitration Association ("AAA") national rules for the resolution of employment disputes by mediation, by a mediator who has had both training and experience as a mediator of general employment and commercial matters. If the parties to this agreement cannot agree on a mediator, then the mediator will be selected by the AAA in accordance with the criteria described in this provision. Within 30 days after the selection of the mediator, MDI and Executive and their respective attorneys will meet with the mediator for one mediation session of at least four hours. If the claim or dispute cannot be settled during such mediation session or mutually agreed continuation of the session, either MDI or Executive may give the mediator and the other party to the claim or dispute written notice declaring the end of the mediation process. All discussions connected with this mediation provision will be confidential and treated as compromise and settlement discussions. Nothing disclosed in such discussions, which is not independently discoverable, may be used for any purpose in any later proceeding. The mediator's fees will be paid by MDI.

11.3 ARBITRATION. If any claim or dispute has not been resolved in accordance with Section 11.1 and Section 11.2, then the claim or dispute will be determined by arbitration in Salt Lake City, Utah, in accordance with the then-current AAA national rules for the resolution of employment disputes by arbitration, except as modified herein. The arbitration will be conducted by a sole neutral arbitrator who has had both training and experience as an arbitrator of general employment and commercial matters and who is and for at least ten years has been, a partner, a shareholder, or a member in a law firm. If MDI and Executive cannot mutually agree on an arbitrator, then the arbitrator

will be selected by the AAA applying the criteria in this provision. No person who has served as a mediator under the mediation provision, however, may be selected as the arbitrator for the same claim or dispute. Reasonable discovery will be permitted and the arbitrator may decide any issue as to discovery. The arbitrator may decide any issue as to whether or as to the extent to which, any dispute is subject to the dispute resolution provisions in Section 11 and the arbitrator may award any relief permitted by law. The arbitrator must base the arbitration award on the provisions of Section 11 and applicable law and must render the award in writing, including an explanation of the reasons for the award. Judgment upon the award may be entered by any court having jurisdiction of the matter, and the decision of the arbitrator will be final and binding. The statute of limitations applicable to the commencement of a lawsuit will apply to the commencement of arbitration under Section 11.3. The arbitrator's fees will be paid in equal portions by MDI and Executive, unless the arbitrator determines that, under the

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circumstances of the arbitration and considering the award of the arbitrator, one or the other of the parties should pay the entire amount of the arbitrator's fees.

12. FEES. Unless otherwise agreed, the prevailing party will be entitled to its costs and attorneys' fees incurred in any litigation relating to the interpretation or enforcement of this Agreement.

13. DISCLOSURE. Executive agrees fully and completely to reveal the terms of this Agreement to any future employer or potential employer of Executive and authorizes MDI, at its election, to make such disclosure.

14. REPRESENTATION OF EXECUTIVE. Executive represents and warrants to MDI that Executive is free to enter into this Agreement and has no commitment, arrangement or understanding to or with any party that restrains or is in conflict with Executive's performance of the covenants, services and duties provided for in this Agreement. Executive agrees to indemnify MDI and to hold it harmless against any and all liabilities or claims arising out of any unauthorized act or acts by Executive that, the foregoing representation and warranty to the contrary notwithstanding, are in violation, or constitute a breach, of any such commitment, arrangement or understanding.

15. ASSIGNABILITY. During Executive's employment, this Agreement may not be assigned by either party without the written consent of the other; provided, however, that MDI may assign its rights and obligations under this Agreement without Executive's consent to a successor by reorganization, sale, merger or liquidation, if such successor carries on the Business substantially in the form in which it is being conducted at the time of the reorganization, sale, merger or liquidation. This Agreement is binding upon Executive, Executive's heirs, personal representatives and permitted assigns and on MDI, its successors and assigns.

16. NOTICES. Any notice required or permitted to be given hereunder is sufficient if in writing and delivered by hand, by facsimile or by registered or certified mail, to Executive at 738 Aspenwood Lane, Twin Falls, ID 83301 or to MDI at 30103 W. Quinn Rd., Prosser, WA 99350, Attn: David R. Walker. Either Executive or MDI may change the place to which notice is to be given by providing notice thereof to the other party.

17. SEVERABILITY. If any provision of this Agreement or compliance by any of the parties with any provision of this Agreement constitutes a violation of any law, or is or becomes unenforceable or void, then such provision, to the extent only that it is in violation of law, unenforceable or void, shall be deemed modified to the extent necessary so that it is no longer in violation of law, unenforceable or void, and such provision will be enforced to the fullest extent permitted by law. If such modification is not possible, said provision, to the extent that it is in violation of law, unenforceable or void, shall be deemed severable from the remaining provisions of this Agreement, which provisions will remain binding on the parties.

18. WAIVERS. No failure on the part of either party to exercise, and no delay in exercising, any right or remedy hereunder will operate as a waiver thereof; nor will any single or partial

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waiver of a breach of any provision of this Agreement operate or be construed as a waiver of any subsequent breach; nor will any single or partial exercise of any right or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right or remedy granted hereby or by law.

19. GOVERNING LAW. The validity, construction and performance of this Agreement shall be governed by the laws of the State of Idaho without regard to the conflict of laws provisions of such laws.

20. ENTIRE AGREEMENT. This instrument contains the entire agreement of the parties with respect to the relationship between Executive and MDI and supersedes all prior agreements and understandings, and there are no other representations or agreements other than as stated in this Agreement related to the terms and conditions of Executive's employment. This Agreement may be changed only by an agreement in writing signed by the party against whom enforcement of any waiver, change, modification, extension or discharge is sought.

IN WITNESS WHEREOF, the parties have duly signed and delivered this Agreement as of the day and year first above written.

MEDICAL DISCOVERIES, INC.

By: /s/ David R. Walker

/s/ Judy M. Robinett

Name: David R. Walker

Judy M. Robinett

Title: Chairman of the Board of Directors

MEDICAL DISCOVERIES, INC.

2002 STOCK INCENTIVE PLAN

1. PURPOSE. The purpose of this 2002 Stock Incentive Plan (the "Plan") is to enable Medical Discoveries, Inc. (the "Company") to attract and retain the services of (i) selected employees, officers and directors of the Company or any parent or subsidiary of the Company and (ii) selected nonemployee agents, consultants, advisers and independent contractors of the Company or any parent or subsidiary of the Company. For purposes of this Plan, a person is considered to be employed by or in the service of the Company if the person is employed by or in the service of any entity (the "Employer") that is either the Company or a parent or subsidiary of the Company.

2. SHARES SUBJECT TO THE PLAN. Subject to adjustment as provided below and in Section 10, the shares to be offered under the Plan shall consist of Common Stock of the Company, and the total number of shares of Common Stock that may be issued under the Plan shall be 2,000,000 shares. If an option or Performance-Based Award granted under the Plan expires, terminates or is canceled, the unissued shares subject to that option or Performance-Based Award shall again be available under the Plan. If shares awarded as a bonus pursuant to Section 7 or sold pursuant to Section 8 under the Plan are forfeited to or repurchased by the Company, the number of shares forfeited or repurchased shall again be available under the Plan.

3. EFFECTIVE DATE AND DURATION OF PLAN.

3.1 EFFECTIVE DATE. The Plan shall become effective as of July 11, 2002. No Incentive Stock Option (as defined in Section 5 below) granted under the Plan shall become exercisable and no payments shall be made under a Performance-Based Award, however, until the Plan is approved by the affirmative vote of the holders of a majority of the shares of Common Stock represented at a shareholders meeting at which a quorum is present or by means of unanimous consent resolutions, and the exercise of any Incentive Stock Options granted under the Plan before approval shall be conditioned on and subject to that approval. Subject to this limitation, options and Performance-Based Awards may be granted and shares may be awarded as bonuses or sold under the Plan at any time after the effective date and before termination of the Plan.

3.2 DURATION. The Plan shall continue in effect until all shares available for issuance under the Plan have been issued and all restrictions on the shares have lapsed. The Board of Directors may suspend or terminate the Plan at any time except with respect to options, Performance-Based Awards and shares subject to restrictions then outstanding under the Plan. Termination shall not affect any outstanding options, any outstanding Performance-Based Awards or any right of the Company to repurchase shares or the forfeitability of shares issued under the Plan.

4. ADMINISTRATION.

4.1 BOARD OF DIRECTORS. The Plan shall be administered by the Board of Directors of the Company, which shall determine and designate the individuals to whom awards shall be made, the amount of the awards and the other terms and conditions of the awards. Subject to the provisions of the Plan, the Board of Directors may adopt and amend rules and regulations relating to administration of the Plan, advance the lapse of any waiting period, accelerate any exercise date, waive or modify any restriction applicable to shares (except those restrictions imposed by law) and make all other determinations in the judgment of the Board of Directors necessary or desirable for the administration of the Plan. The interpretation and construction of the provisions of the Plan and related agreements by the Board of Directors shall be final and conclusive. The Board of Directors may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any related agreement in the manner and to the extent it deems expedient to carry the Plan into effect, and the Board of Directors shall be the sole and final judge of such expediency.

4.2 COMMITTEE. The Board of Directors may delegate to any committee of the Board of Directors (the "Committee") any or all authority for administration of the Plan. If authority is delegated to the Committee, all references to the Board of Directors in the Plan shall mean and relate to the Committee, except (i) as otherwise provided by the Board of Directors and (ii) that only the Board of Directors may amend or terminate the Plan as provided in Sections 3 and 11.

5. TYPES OF AWARDS, ELIGIBILITY, LIMITATIONS. The Board of Directors may, from time to time, take the following actions, separately or in combination, under the Plan: (i) grant Incentive Stock Options, as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), as provided in Sections 6.1 and 6.2; (ii) grant options other than Incentive Stock Options ("Non-Statutory Stock Options") as provided in Sections 6.1 and 6.3; (iii) award stock bonuses as provided in Section 7; (iv) sell shares subject to

restrictions as provided in Section 8; and (v) award Performance-Based Awards as provided in Section 9. Awards may be made to employees, including employees who are officers or directors, and to other individuals described in Section 1 selected by the Board of Directors; provided, however, that only employees of the Company or any parent or subsidiary of the Company (as defined in subSections 424(e) and 424(f) of the Code) are eligible to receive Incentive Stock Options under the Plan. The Board of Directors shall select the individuals to whom awards shall be made and shall specify the action taken with respect to each individual to whom an award is made. At the discretion of the Board of Directors, an individual may be given an election to surrender an award in exchange for the grant of a new award.

6. OPTION GRANTS.

6.1 GENERAL RULES RELATING TO OPTIONS.

6.1-1 TERMS OF GRANT. The Board of Directors may grant options under the Plan. With respect to each option grant, the Board of Directors shall determine the number of shares subject to the option, the exercise price, the period of the option, the time or

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times at which the option may be exercised and whether the option is an Incentive Stock Option or a Non-Statutory Stock Option. At the time of the grant of an option or at any time thereafter, the Board of Directors may provide that an optionee who exercised an option with Common Stock of the Company shall automatically receive a new option to purchase additional shares equal to the number of shares surrendered and may specify the terms and conditions of such new options.

6.1-2 EXERCISE OF OPTIONS. Except as provided in Section 6.1-4 or as determined by the Board of Directors, no option granted under the Plan may be exercised unless at the time of exercise the optionee is employed by or in the service of the Company and shall have been so employed or provided such service continuously since the date the option was granted. Except as provided in Sections 6.1-4 and 10, options granted under the Plan may be exercised from time to time over the period stated in each option in amounts and at times prescribed by the Board of Directors, provided that options may not be exercised for fractional shares. Unless otherwise determined by the Board of Directors, if an optionee does not exercise an option in any one year for the full number of shares to which the optionee is entitled in that year, the optionee's rights shall be cumulative and the optionee may purchase those shares in any subsequent year during the term of the option.

6.1-3 NONTRANSFERABILITY. Each Incentive Stock Option and, unless otherwise determined by the Board of Directors, each other option granted under the Plan by its terms (i) shall be nonassignable and nontransferable by the optionee, either voluntarily or by operation of law, except by will or by the laws of descent and distribution of the state or country of the optionee's domicile at the time of death, and (ii) during the optionee's lifetime, shall be exercisable only by the optionee.

6.1-4 TERMINATION OF EMPLOYMENT OR SERVICE.

6.1-4(a) GENERAL RULE. Unless otherwise determined by the Board of Directors, if an optionee's employment or service with the Company terminates for any reason other than because of total disability or death as provided in Sections 6.1-4(b) and (c), his or her option may be exercised at any time before the expiration date of the option or the expiration of 30 days after the date of termination, whichever is the shorter period, but only if and to the extent the optionee was entitled to exercise the option at the date of termination.

6.1-4(b) TERMINATION BECAUSE OF TOTAL DISABILITY. Unless otherwise determined by the Board of Directors, if an optionee's employment or service with the Company terminates because of total disability, his or her option may be exercised at any time before the expiration date of the option or before the date 12 months after the date of termination, whichever is the shorter period, but only if and to the extent the optionee was entitled to exercise the option at the date of termination. The term "total disability" means a medically determinable mental or physical impairment that is expected to result in death or has lasted or is expected to last for a continuous period of 12 months or more and that, in the opinion of the Company and two independent physicians, causes the optionee to be unable to perform his or her duties as an employee, director, officer or consultant of the Employer and

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unable to be engaged in any substantial gainful activity. Total disability shall be deemed to have occurred on the first day after the two independent physicians have furnished their written opinion of total disability to the Company and the Company has reached an opinion of total disability.

6.1-4(c) TERMINATION BECAUSE OF DEATH. Unless otherwise determined by the Board of Directors, if an optionee dies while employed by or providing service to the Company, his or her option may be exercised at any time before the expiration date of the option or before the date 12 months after the date of death, whichever is the shorter period, but only if and to the extent the optionee was entitled to exercise the option at the date of death and only by the person or persons to whom the optionee's rights under the option shall pass by the optionee's will or by the laws of descent and distribution of the state or country of domicile at the time of death.

6.1-4(d) AMENDMENT OF EXERCISE PERIOD APPLICABLE TO TERMINATION. The Board of Directors may at any time extend the 30-day and 12-month exercise periods any length of time not longer than the original expiration date of the option. The Board of Directors may at any time increase the portion of an option that is exercisable, subject to terms and conditions determined by the Board of Directors.

6.1-4(e) FAILURE TO EXERCISE OPTION. To the extent that the option of any deceased optionee or any optionee whose employment or service terminates is not exercised within the applicable period, all further rights to purchase shares pursuant to the option shall cease and terminate.

6.1-4(f) LEAVE OF ABSENCE. Absence on leave approved by the Employer or on account of illness or disability shall not be deemed a termination or interruption of employment or service. Unless otherwise determined by the Board of Directors, vesting of options shall continue during a medical, family or military leave of absence, whether paid or unpaid, and vesting of options shall be suspended during any other unpaid leave of absence.

6.1-5 PURCHASE OF SHARES.

6.1-5(a) NOTICE OF EXERCISE. Unless the Board of Directors determines otherwise, shares may be acquired pursuant to an option granted under the Plan only upon the Company's receipt of written notice from the optionee of the optionee's binding commitment to purchase shares, specifying the number of shares the optionee desires to purchase under the option and the date on which the optionee agrees to complete the transaction, and, if required to comply with the Securities Act of 1933, containing a representation that it is the optionee's intention to acquire the shares for investment and not with a view to distribution.

6.1-5(b) PAYMENT. Unless the Board of Directors determines otherwise, on or before the date specified for completion of the purchase of shares pursuant to an option exercise, the optionee must pay the Company the full purchase price of those shares

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in cash or by check or, with the consent of the Board of Directors, in whole or in part, in Common Stock of the Company valued at fair market value, restricted stock or other contingent awards denominated in either stock or cash, promissory notes and other forms of consideration. Unless otherwise determined by the Board of Directors, any Common Stock provided in payment of the purchase price must have been previously acquired and held by the optionee for at least six months. The fair market value of Common Stock provided in payment of the purchase price shall be the closing price of the Common Stock last reported before the time payment in Common Stock is made or, if earlier, committed to be made, if the Common Stock is publicly traded, or another value of the Common Stock as specified by the Board of Directors. No shares shall be issued until full payment for the shares has been made, including all amounts owed for tax withholding. With the consent of the Board of Directors, an optionee may request the Company to apply automatically the shares to be received upon the exercise of a portion of a stock option (even though stock certificates have not yet been issued) to satisfy the purchase price for additional portions of the option.

6.1-5(c) TAX WITHHOLDING. Each optionee who has exercised an option shall, immediately upon notification of the amount due, if any, pay to the Company in cash or by check amounts necessary to satisfy any applicable federal, state and local tax withholding requirements. If additional withholding is or becomes required (as a result of exercise of an option or as a result of disposition of shares acquired pursuant to exercise of an option) beyond any amount deposited before delivery of the certificates, the optionee shall pay such amount, in cash or by check, to the Company on demand. If the optionee fails to pay the amount demanded, the Company or the Employer may withhold that amount from other amounts payable to the optionee, including salary, subject to applicable law. With the consent of the Board of Directors, an optionee may satisfy this obligation, in whole or in part, by instructing the Company to withhold from the shares to be issued upon exercise or by delivering to the Company other shares of Common Stock; provided, however, that the number of shares so withheld or delivered shall not exceed the minimum amount necessary to satisfy the required withholding obligation.

6.1-5(d) REDUCTION OF RESERVED SHARES. Upon the exercise of an option, the number of shares reserved for issuance under the Plan shall be reduced by the number of shares issued upon exercise of the option (less the number of any shares surrendered in payment for the exercise price or withheld to satisfy withholding requirements).

6.1-6 LIMITATIONS ON GRANTS TO NON-EXEMPT EMPLOYEES. Unless otherwise determined by the Board of Directors, if an employee of the Company or any parent or subsidiary of the Company is a non-exempt employee subject to the overtime compensation provisions of Section 7 of the Fair Labor Standards Act (the "FLSA"), any option granted to that employee shall be subject to the following restrictions: (i) the option price shall be at least 85 percent of the fair market value, as described in Section 6.2-4, of the Common Stock subject to the option on the date it is granted; and (ii) the option shall not be exercisable until at least six months after the date it is granted; provided, however, that this six-month restriction on exercisability will cease to apply if the employee dies, becomes disabled or retires, there is

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a change in ownership of the Company, or in other circumstances permitted by regulation, all as prescribed in Section 7(e)(8)(B) of the FLSA.

6.2 INCENTIVE STOCK OPTIONS. Incentive Stock Options shall be subject to the following additional terms and conditions:

6.2-1 LIMITATION ON AMOUNT OF GRANTS. If the aggregate fair market value of stock (determined as of the date the option is granted) for which Incentive Stock Options granted under this Plan (and any other stock incentive plan of the Company or its parent or subsidiary corporations, as defined in subSections 424(e) and 424(f) of the Code) are exercisable for the first time by an employee during any calendar year exceeds \$100,000, the portion of the option or options not exceeding \$100,000, to the extent of whole shares, will be treated as an Incentive Stock Option and the remaining portion of the option or options will be treated as a Non-Statutory Stock Option. The preceding sentence will be applied by taking options into account in the order in which they were granted. If, under the \$100,000 limitation, a portion of an option is treated as an Incentive Stock Option and the remaining portion of the option is treated as a Non-Statutory Stock Option, unless the optionee designates otherwise at the time of exercise, the optionee's exercise of all or a portion of the option will be treated as the exercise of the Incentive Stock Option portion of the option to the full extent permitted under the \$100,000 limitation. If an optionee exercises an option that is treated as in part an Incentive Stock Option and in part a Non-Statutory Stock Option, the Company will designate the portion of the stock acquired pursuant to the exercise of the Incentive Stock Option portion as Incentive Stock Option stock by issuing a separate certificate for that portion of the stock and identifying the certificate as Incentive Stock Option stock in its stock records.

6.2-2 LIMITATIONS ON GRANTS TO 10 PERCENT SHAREHOLDERS. An Incentive Stock Option may be granted under the Plan to an employee possessing more than 10 percent of the total combined voting power of all classes of stock of the Company or any parent or subsidiary (as defined in subSections 424(e) and 424(f) of the Code) only if the option price is at least 110 percent of the fair market value, as described in Section 6.2-4, of the Common Stock subject to the option on the date it is granted and the option by its terms is not exercisable after the expiration of five years from the date it is granted.

6.2-3 DURATION OF OPTIONS. Subject to Sections 6.1-2, 6.1-4 and 6.2-2, Incentive Stock Options granted under the Plan shall continue in effect for the period fixed by the Board of Directors, except that by its terms no Incentive Stock Option shall be exercisable after the expiration of 10 years from the date it is granted.

6.2-4 OPTION PRICE. The option price per share shall be determined by the Board of Directors at the time of grant. Except as provided in Section 6.2-2, the option price shall not be less than 100 percent of the fair market value of the Common Stock covered by the Incentive Stock Option at the date the option is granted. The fair market value shall be the closing price of the Common Stock last reported before the time the option is granted, if the stock is publicly traded, or another value of the Common Stock as specified by the Board of Directors.

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6.2-5 LIMITATION ON TIME OF GRANT. No Incentive Stock Option shall be granted on or after the tenth anniversary of the last action by the Board of Directors adopting the Plan or approving an increase in the number of shares available for issuance under the Plan, which action was subsequently approved within 12 months by the shareholders.

6.2-6 EARLY DISPOSITIONS. If within two years after an Incentive Stock Option is granted or within 12 months after an Incentive Stock

Option is exercised, the optionee sells or otherwise disposes of Common Stock acquired on exercise of the Option, the optionee shall within 30 days of the sale or disposition notify the Company in writing of (i) the date of the sale or disposition, (ii) the amount realized on the sale or disposition and (iii) the nature of the disposition (e.g., sale, gift, etc.).

6.3 NON-STATUTORY STOCK OPTIONS. Non-Statutory Stock Options shall be subject to the following terms and conditions, in addition to those set forth in Section 6.1 above:

6.3-1 OPTION PRICE. The option price for Non-Statutory Stock Options shall be determined by the Board of Directors at the time of grant and may be any amount determined by the Board of Directors.

6.3-2 DURATION OF OPTIONS. Non-Statutory Stock Options granted under the Plan shall continue in effect for the period fixed by the Board of Directors.

7. STOCK BONUSES. The Board of Directors may award shares under the Plan as stock bonuses. Shares awarded as a bonus shall be subject to the terms, conditions and restrictions determined by the Board of Directors. The restrictions may include restrictions concerning transferability and forfeiture of the shares awarded, together with any other restrictions determined by the Board of Directors. The Board of Directors may require the recipient to sign an agreement as a condition of the award, but may not require the recipient to pay any monetary consideration other than amounts necessary to satisfy tax withholding requirements. The agreement may contain any terms, conditions, restrictions, representations and warranties required by the Board of Directors. The certificates representing the shares awarded shall bear any legends required by the Board of Directors. The Company may require any recipient of a stock bonus to pay to the Company in cash or by check upon demand amounts necessary to satisfy any applicable federal, state or local tax withholding requirements. If the recipient fails to pay the amount demanded, the Company or the Employer may withhold that amount from other amounts payable to the recipient, including salary, subject to applicable law. With the consent of the Board of Directors, a recipient may satisfy this obligation, in whole or in part, by instructing the Company to withhold from any shares to be issued or by delivering to the Company other shares of Common Stock; provided, however, that the number of shares so withheld or delivered shall not exceed the minimum amount necessary to satisfy the required withholding obligation. Upon the issuance of a stock bonus, the number of shares reserved for issuance under the Plan shall be reduced by the number of shares issued, less the number of shares withheld or delivered to satisfy withholding obligations.

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8. RESTRICTED STOCK. The Board of Directors may issue shares under the Plan for any consideration (including promissory notes and services) determined by the Board of Directors. Shares issued under the Plan shall be subject to the terms, conditions and restrictions determined by the Board of Directors. The restrictions may include restrictions concerning transferability, repurchase by the Company and forfeiture of the shares issued, together with any other restrictions determined by the Board of Directors. All Common Stock issued pursuant to this Section 8 shall be subject to a purchase agreement, which shall be executed by the Company and the prospective purchaser of the shares before the delivery of certificates representing the shares to the purchaser. The purchase agreement may contain any terms, conditions, restrictions, representations and warranties required by the Board of Directors. The certificates representing the shares shall bear any legends required by the Board of Directors. The Company may require any purchaser of restricted stock to pay to the Company in cash or by check upon demand amounts necessary to satisfy any applicable federal, state or local tax withholding requirements. If the purchaser fails to pay the amount demanded, the Company or the Employer may withhold that amount from other amounts payable to the purchaser, including salary, subject to applicable law. With the consent of the Board of Directors, a purchaser may satisfy this obligation, in whole or in part, by instructing the Company to withhold from any shares to be issued or by delivering to the Company other shares of Common Stock; provided, however, that the number of shares so withheld or delivered shall not exceed the minimum amount necessary to satisfy the required withholding obligation. Upon the issuance of restricted stock, the number of shares reserved for issuance under the Plan shall be reduced by the number of shares issued, less the number of shares withheld or delivered to satisfy withholding obligations.

9. PERFORMANCE-BASED AWARDS. The Board of Directors may grant awards intended to qualify as qualified performance-based compensation under Section 162(m) of the Code and the regulations thereunder ("Performance-Based Awards"). Performance-Based Awards shall be denominated at the time of grant either in Common Stock ("Stock Performance Awards") or in dollar amounts ("Dollar Performance Awards"). Payment under a Stock Performance Award or a Dollar Performance Award shall be made, at the discretion of the Board of Directors, in Common Stock ("Performance Shares"), or in cash or in any combination thereof. Performance-Based Awards shall be subject to the following terms and conditions:

9.1 AWARD PERIOD. The Board of Directors shall determine the period of time for which a Performance-Based Award is made (the "Award Period").

9.2 PERFORMANCE GOALS AND PAYMENT. The Board of Directors shall establish in writing objectives ("Performance Goals") that must be met by the Company or any subsidiary, division or other unit of the Company ("Business Unit") during the Award Period as a condition to payment being made under the Performance-Based Award. The Performance Goals for each award shall be one or more targeted levels of performance with respect to one or more of the following objective measures with respect to the Company or any Business Unit: earnings, earnings per share, stock price increase, total shareholder return (stock price increase plus dividends), return on equity, return on assets, return on capital, economic value

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added, revenues, operating income, inventories, inventory turns, cash flows or any of the foregoing before the effect of acquisitions, divestitures, accounting changes, and restructuring and special charges (determined according to criteria established by the Board of Directors). The Board of Directors shall also establish the number of Performance Shares or the amount of cash payment to be made under a Performance-Based Award if the Performance Goals are met or exceeded, including the fixing of a maximum payment. The Board of Directors may establish other restrictions to payment under a Performance-Based Award, such as a continued employment requirement, in addition to satisfaction of the Performance Goals. Some or all of the Performance Shares may be issued at the time of the award as restricted shares subject to forfeiture in whole or in part if Performance Goals or, if applicable, other restrictions are not satisfied.

9.3 COMPUTATION OF PAYMENT. During or after an Award Period, the performance of the Company or Business Unit, as applicable, during the period shall be measured against the Performance Goals. If the Performance Goals are not met, no payment shall be made under a Performance-Based Award. If the Performance Goals are met or exceeded, the Board of Directors shall certify that fact in writing and certify the number of Performance Shares earned or the amount of cash payment to be made under the terms of the Performance-Based Award.

9.4 TAX WITHHOLDING. Each participant who has received Performance Shares shall, upon notification of the amount due, pay to the Company in cash or by check amounts necessary to satisfy any applicable federal, state and local tax withholding requirements. If the participant fails to pay the amount demanded, the Company or the Employer may withhold that amount from other amounts payable to the participant, including salary, subject to applicable law. With the consent of the Board of Directors, a participant may satisfy this obligation, in whole or in part, by instructing the Company to withhold from any shares to be issued or by delivering to the Company other shares of Common Stock; provided, however, that the number of shares so delivered or withheld shall not exceed the minimum amount necessary to satisfy the required withholding obligation.

9.5 EFFECT ON SHARES AVAILABLE. The payment of a Performance-Based Award in cash shall not reduce the number of shares of Common Stock reserved for issuance under the Plan. The number of shares of Common Stock reserved for issuance under the Plan shall be reduced by the number of shares issued upon payment of an award, less the number of shares delivered or withheld to satisfy withholding obligations.

10. CHANGES IN CAPITAL STRUCTURE.

10.1 STOCK SPLITS, STOCK DIVIDENDS. If the outstanding Common Stock of the Company is hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any stock split, combination of shares, dividend payable in shares, recapitalization or reclassification, appropriate adjustment shall be made by the Board of Directors in the number and kind of shares available for grants under the Plan and in all other share amounts set forth in the Plan. In addition, the Board of Directors shall make appropriate adjustment in the number and kind

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of shares as to which outstanding options, or portions thereof then unexercised, shall be exercisable, so that the optionee's proportionate interest before and after the occurrence of the event is maintained. Notwithstanding the foregoing, the Board of Directors shall have no obligation to effect any adjustment that would or might result in the issuance of fractional shares, and any fractional shares resulting from any adjustment may be disregarded or provided for in any manner determined by the Board of Directors. Any such adjustments made by the Board of Directors shall be conclusive.

10.2 MERGERS, REORGANIZATIONS, ETC. In the event of a merger, consolidation, plan of exchange, acquisition of property or stock, split-up,

split-off, spin-off, reorganization or liquidation to which the Company is a party or any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company (each, a "Transaction"), the Board of Directors shall, in its sole discretion and to the extent possible under the structure of the Transaction, select one of the following alternatives for treating outstanding options under the Plan:

10.2-1 Outstanding options shall remain in effect in accordance with their terms.

10.2-2 Outstanding options shall be converted into options to purchase stock in one or more of the corporations, including the Company, that are the surviving or acquiring corporations in the Transaction. The amount, type of securities subject thereto and exercise price of the converted options shall be determined by the Board of Directors of the Company, taking into account the relative values of the companies involved in the Transaction and the exchange rate, if any, used in determining shares of the surviving corporation(s) to be held by holders of shares of the Company following the Transaction. Unless otherwise determined by the Board of Directors, the converted options shall be vested only to the extent that the vesting requirements relating to options granted hereunder have been satisfied.

10.2-3 The Board of Directors shall provide a period of 30 days or less before the completion of the Transaction during which outstanding options may be exercised to the extent then exercisable, and upon the expiration of that period, all unexercised options shall immediately terminate. The Board of Directors may, in its sole discretion, accelerate the exercisability of options so that they are exercisable in full during that period.

10.3 DISSOLUTION OF THE COMPANY. In the event of the dissolution of the Company, options shall be treated in accordance with Section 10.2-3.

10.4 RIGHTS ISSUED BY ANOTHER CORPORATION. The Board of Directors may also grant options and stock bonuses and Performance-Based Awards and issue restricted stock under the Plan with terms, conditions and provisions that vary from those specified in the Plan, provided that any such awards are granted in substitution for, or in connection with the assumption of, existing options, stock bonuses, Performance-Based Awards and restricted stock granted, awarded or issued by another corporation and assumed or otherwise agreed to be provided for by the Company pursuant to or by reason of a Transaction.

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11. AMENDMENT OF THE PLAN. The Board of Directors may at any time modify or amend the Plan in any respect. Except as provided in Section 10, however, no change in an award already granted shall be made without the written consent of the holder of the award if the change would adversely affect the holder.

12. APPROVALS. The Company's obligations under the Plan are subject to the approval of state and federal authorities or agencies with jurisdiction in the matter. The Company will use its best efforts to take steps required by state or federal law or applicable regulations, including rules and regulations of the Securities and Exchange Commission and any stock exchange on which the Company's shares may then be listed, in connection with the grants under the Plan. The foregoing notwithstanding, the Company shall not be obligated to issue or deliver Common Stock under the Plan if such issuance or delivery would violate state or federal securities laws.

13. EMPLOYMENT AND SERVICE RIGHTS. Nothing in the Plan or any award pursuant to the Plan shall (i) confer upon any employee any right to be continued in the employment of an Employer or interfere in any way with the Employer's right to terminate the employee's employment at will at any time, for any reason, with or without cause, or to decrease the employee's compensation or benefits, or (ii) confer upon any person engaged by an Employer any right to be retained or employed by the Employer or to the continuation, extension, renewal or modification of any compensation, contract or arrangement with or by the Employer.

14. RIGHTS AS A SHAREHOLDER. The recipient of any award under the Plan shall have no rights as a shareholder with respect to any shares of Common Stock until the date the recipient becomes the holder of record of those shares. Except as otherwise expressly provided in the Plan, no adjustment shall be made for dividends or other rights for which the record date occurs before the date the recipient becomes the holder of record.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Medical Discoveries, Inc. (the "Company") on Form 10-QSB for the quarterly period ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Judy M. Robinett, President and Chief Executive Officer of the Company and principal financial officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JUDY M. ROBINETT

Judy M. Robinett
President and Chief Executive Officer
August 14, 2002