As filed with the Securities and Exchange Commission on October 12, 2005

Registration No. 0333-121635

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 3 to

FORM SB-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

MEDICAL DISCOVERIES, INC.

(Exact Name of Small Business Issuer in its Charter)

Utah	**2834**	**87-0407858**
(State or Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

1338 S. Foothill Drive, #266
Salt Lake City, Utah 84108
Telephone: (801) 582-9583

(Address and telephone number of principal executive offices and principal place of business)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If any of the securities being registered on this form are to be offered on a delayed or continuing basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☑

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.☐

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

SUBJECT TO COMPLETION DATED OCTOBER 12, 2005

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Medical Discoveries, Inc.

113,511,158 shares of common stock

This prospectus relates to the offering and sale of 113,511,158 shares of common stock offered for resale by the selling security holders identified on page 10 of this prospectus.

We will not receive any of the proceeds from the sale of the shares offered hereunder. Our common stock is traded on the NASD OTC Bulletin Board under the symbol "MLSC." On October 11, 2005, the closing sales price of our common stock, as reported by the OTC Bulletin Board, was $0.10 per share.

Consider carefully the risk factors beginning on page 2 of this prospectus before investing in the offered shares being sold with this prospectus

This prospectus shall not constitute an offer to sell, or the solicitation of an offer to buy, in any state in which such offer or sale would be unlawful before or absent qualification under the securities laws of such state.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Dated October 12, 2005

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ABOUT THIS PROSPECTUS

This prospectus provides you with a description of our company, certain risk factors associated with investment in our common shares, a description of the contemplated offering and certain financial information. Fuzeon is a registered trademark of Roche Laboratories, Inc. and Timeris Inc. Tobramycin is a registered trademark of Chiron Corporation or its subsidiaries. Pulmozyme is a registered trademark of Genetech, Inc. Advair is a registered trademark of GlaxoSmithKline. Singulair is a registered trademark of Merck & Co., Inc. Herceptin is a registered trademark of Genetech, Inc. Femara is a registered trademark of Novartis Pharma AG. Arimidex is a registered trademark of AstraZeneca Pharmaceuticals LP. Aromasin is a registered trademark of Pfizer, Inc.

PROSPECTUS SUMMARY

The following is a summary that highlights what we believe to be the most important information regarding Medical Discoveries, Inc. and the securities being offered herein. Because it is a summary, however, it may not contain all of the information that is important to you. To understand our business and this offering fully, you should read carefully this entire prospectus, including our financial statements and related notes and the risks of investing in our common stock discussed under "Risk Factors."

Our Company

Medical Discoveries, Inc. was incorporated on November 20, 1991 as a Utah corporation and maintains its principal offices at 1338 S. Foothill Drive, #266, Salt Lake City, Utah 84108. Our telephone number is (801) 582-9583 and our web address is www.medicaldiscoveries.com. We are a developmental—stage bio-pharmaceutical company engaged in the research, validation, development and ultimate commercialization of two drugs: MDI-P and SaveCream. MDI-P is an anti-infective drug that we believe will be a useful and well tolerated treatment for bacterial infections, viral infections and fungal infections. SaveCream is a breast cancer medication that is applied topically to reduce breast cancer tumors. Neither of these drugs has been approved by the U. S. Food and Drug Administration (FDA). We have filed an Investigational New Drug Application (IND) for MDI-P with the FDA, and are awaiting approval, pending the outcome of additional preclinical research, to begin Phase I clinical trials in humans. Save Cream is currently in preclinical development.

The Offering

Securities offered by the Selling Stockholders	350,000 shares restricted common stock 84,000,000[1] shares of common stock issuable upon conversion of Series A convertible preferred stock 29,161,158 shares of common stock issuable upon exercise of warrants
Shares of our common stock outstanding prior to this offering	109,951,195[2]
Shares of common stock outstanding following this offering, if all registered shares are sold	223,462,353
Use of Proceeds	All net proceeds of this offering will be received by the Selling Stockholders.
Risk Factors	You should read the "Risk Factors" beginning on page 2 as well as other cautionary statements throughout this prospectus before investing in any shares offered hereunder.

(1) This registration statement covers, in part, shares of common stock that may be issued upon conversion of two issuances of Series A convertible preferred stock. While we are required to register an aggregate of only 84,000,000 shares of common stock pursuant to those issuances, the actual number of shares into which the Series A stock could be converted could be much greater. See the sections of this prospectus entitled "Prospectus Summary — Selling Security Holders" and "Selling Security Holders" for a detailed analysis of the Series A conversion feature. Before making an investment decision in Medical Discoveries, you should consider the risks associated with the Series A conversion feature. See "Risk Factors: Obtaining Additional Capital Through The Sale Of Common Stock Will Result In Dilution Of Stockholder Interests".

(2) Excludes up to 19,483,000 shares of common stock authorized for issuance upon exercise of outstanding options granted pursuant to our stock option plans, 4,000,000 shares of our common stock reserved for the future grant of stock options under such plans, and 40,423,861 shares of our common stock issuable upon exercise of warrants (which 40,423,861 includes the 29,161,158 shares of common stock subject to outstanding warrants being registered in this offering).

In addition, pursuant to Rule 416 of the Securities Act, this prospectus, and the registration statement of which it is a part, covers a presently indeterminate number of shares of stock issuable upon the occurrence of a stock split, stock dividend or other similar transaction.

Selling Security Holders

All of the offered shares are to be sold by existing security holders. The selling shareholders acquired the rights to their shares and warrants (i) in a private placement of Series A Convertible Preferred Stock and warrants in October 2004; (ii) in a private placement of Series A Convertible Preferred Stock and warrants in March 2005; and (iii) in exchange for placement agent services and consulting in connection with the foregoing financings.

Of the shares of our common stock offered hereby, 350,000 shares consist of restricted common stock, 84,000,000 shares may be issuable upon the conversion of Series A Convertible Preferred Stock and 29,161,158 shares are issuable upon the exercise of outstanding warrants to purchase our common stock.

In addition, pursuant to Rule 416 of the Securities Act, this prospectus and the registration statement of which it is a part cover a presently indeterminate number of shares of common stock issuable upon the occurrence of a stock split, stock dividend, or other similar transaction.

The 84,000,000 shares potentially issuable upon conversion of the Series A stock are issuable upon conversion of two issuances of such Series A stock. While we are required to register an aggregate of only 84,000,000 shares of common stock pursuant to those issuances, the actual number of shares into which the Series A stock could be converted could be much greater. Specifically, on October 18, 2004 we issued 12,000 shares of Series A stock to Monarch Pointe Fund, Ltd. Under the terms of that issuance, each share of Series A stock entitles the holder to convert the share into the number of shares of common stock resulting from dividing $100 (which is the purchase price per share of Series A stock) by the conversion price. The conversion price is 85% of the average of the lowest three intra-day trading prices for our common stock during the 10 trading days immediately preceding the conversion date, but the conversion price may not exceed $0.1967 or be lower than $0.05. We are registering 24,000,000 shares of common stock in connection with that issuance (which is based on the floor conversion price of $0.05 per share and is the number of shares required to be registered pursuant to the applicable registration rights agreement with Monarch Pointe Fund, Ltd.). On March 14, 2005 we issued 30,000 shares of Series A stock to Mercator Momentum Fund, LP and Mercator Momentum Fund III, LP. Under the terms of that issuance, each share of Series A stock entitles the holder to convert the share into the number of shares of common stock resulting from dividing $100 (which is the purchase price per share of Series A stock) by the conversion price. The conversion price is 75% of the average of the lowest three intra-day trading prices for our common stock during the 10 trading days immediately preceding the conversion date, but the conversion price may not exceed $0.1967. There is no minimum conversion price per share for that issuance. We are registering 60,000,000 shares of common stock in connection with that issuance (which is based on an assumed conversion price of $0.05 per share and is the number of shares required to be registered pursuant to the applicable registration rights agreement with Mercator Momentum Fund, LP and Mercator Momentum Fund III, LP).

Notwithstanding our obligation to register 84,000,000 shares of common stock upon conversion of the Series A stock, the actual minimum and maximum number of shares of common stock into which the outstanding Series A stock could be converted is as follows:

	Shares of Common Stock Into Which Series A May Be Converted	
	Minimum	Maximum
12,000 Shares of Series A issued 10/18/04	6,100,661	24,000,000
30,000 Shares of Series A issued 03/14/05	15,251,652	Theoretically unlimited(1)
Total	21,352,313	Theoretically unlimited(1)

(1) Because the conversion price has no floor, it theoretically could be infinitely small, resulting in conversion into an infinitely large number of shares of common stock. Practically, the number of shares of common stock into which the Series A could be converted is limited by two factors: the number of shares of common stock authorized (a total of 250,000,000) and the limitation in the Series A financing documents that prohibits the Series A shareholders from beneficially owning more than 9.99% of the issued and outstanding common stock at any one time. See the sections of this prospectus entitled “Selling Security Holders” and “Security Ownership Of Certain Beneficial Owners And Management.”

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should consider the following discussion of risks in addition to the other information in this prospectus before making an investment in Medical Discoveries. If any of the following risks actually occurs, our business, financial condition or results of operations could be materially adversely affected. In such a case, you may lose all or part of your investment. The risks below address some of the factors that may affect our future operating results and financial performance.

Risks Relating to Our Business

We Are A Development-Stage Company That Has Not Yet Commercialized A Product. We have not commercialized MDI-P, SaveCream or any other product and our failure to commercialize our drugs would likely cause us to cease operations. While we believe MDI-P and SaveCream may have very broad commercial applications, we do not have any other products under anecdotal clinical data for development, nor do we have scientific personnel on staff to develop any further technologies. While our preclinical studies of MDI-P and anecdotal clinical data for SaveCream to date have been positive, there is no certainty that our drugs will be successful. The results of our preclinical and anecdotal clinical studies may not be indicative of future clinical trials. Moreover, unacceptable side effects could occur at any time in the course of human trials or, if our drugs are approved for sale, during commercial use. Even if our drugs do prove to be safe and effective and receive regulatory approvals, we may be unable to successfully commercialize them.

We Have Incurred Substantial Losses Since Our Inception And May Continue To Operate At A Loss. We have experienced net losses in each twelve-month period since inception, with a retained deficit of approximately $24,327,818 as of June 30, 2005. Our net losses were $3,731,475 for the fiscal year ended December 31, 2004, $2,309,899 for the six months ended June 30, 2005, and $20,971,633 from inception through June 30, 2005. We will likely continue to experience a net loss until, and if, we can fully commercialize our technologies, which may not be for several years. We are presently investing all of our resources in the testing, development and commercialization of MDI-P and Save-Cream. If MDI-P and SaveCream do not generate revenues or if the revenues do not exceed the costs of research, development, testing, regulatory approval and other costs, then we may never realize a profit from operations.

We May Not Be Able To Raise Sufficient Capital To Meet Present And Future Obligations. As of June 30, 2005, we had $2,424,197 in cash and had a working capital deficit of $1,212,906. We need additional capital in order to satisfy current liabilities. However, because many of our creditors have forebeared (including our CEO who we owe $827,636 in back compensation), we believe we have sufficient funds to achieve our next developmental milestone for MDI-P, that being commencing Phase I clinical trials for cystic fibrosis.

More specifically, we believe we have sufficient capital on hand to complete the additional preclinical testing requested by the FDA before it will approve our IND. Our budget is based on fixed price contracts that have been executed for each of the planned preclinical and Phase I tests, and includes overhead expenses for the applicable period. While we believe we have sufficient funds to begin Phase I clinical trials of MDI-P for cystic fibrosis if and when the FDA approves our IND, we may need to raise additional funds to complete this testing. Should the FDA request further preclinical testing beyond our current expectations, we will need to expend additional funds beyond what is budgeted for our MDI-P development activities. This could impact our ability to commercialize this product.

We also believe we have insufficient capital to file our IND for HIV. In addition, once an IND application for HIV is submitted, and assuming it is approved, we will need additional capital to initiate Phase I clinical trials.

We estimate the cost to complete Phase I and Phase II clinical trials to be several million dollars per indication and the cost to complete Phase III testing and obtain approval of a New Drug Application to be in the tens of millions of dollars per indication. While our ability to obtain financing may improve in the event our IND application is approved, we cannot give assurances that we will have access to the significant capital required to take a drug through regulatory approvals and to market.

We do not currently have revenues that could be used to satisfy our capital requirements. We may seek to obtain revenues at any time, however, by partnering with another company to help us co-develop, license, or even purchase some or all of our technologies. Most likely, we will seek to raise additional capital through equity and/or debt financings.

The timing and amount of our future capital requirements will depend on many factors, including, without limitation the following:

- our ability to raise additional funding and the amounts raised, if any;
- the time and costs involved in obtaining regulatory approvals;
- the results of pre-clinical studies and clinical trials;
- the cost of manufacturing scale-up;
- competing technological and market developments;
- the costs of filing, prosecuting and enforcing patent claims; and
- the effectiveness of our commercialization activities.

Factors affecting the availability and price of capital may include, without limitation, the following:

- market factors affecting the availability and cost of capital generally;
- our performance;
- the size of our capital needs;
- the market’s perception and acceptance of our technologies;
- the price, volatility and trading volume of our common shares; and

If we are unable to obtain sufficient capital or are forced to pay a high price for capital, we may be unable to complete testing, regulatory approval and commercialization of our technologies and may never achieve consistent revenues or profitability. In addition, because of their size, resources and other factors, our competitors may have better access to capital than we do and, as a result, may be able to exploit opportunities more rapidly, easily or thoroughly than we can.

Obtaining Additional Capital Though The Sale Of Common Stock Will Result In Dilution Of Stockholder Interests We plan to raise additional funds in the future by issuing additional shares of common stock, or securities such as convertible notes, options, warrants or preferred stock that are convertible into common stock. Any such sale of common stock or other securities will lead to further dilution of the equity ownership of existing holders of our common stock. Additionally, the existing options, warrants and conversion rights, detailed in the Dilution section of this prospectus, may hinder future equity offerings, and the exercise of those options, warrants and conversion rights may have an adverse effect on the value of our stock. In particular, because the conversion price of some of the Series A convertible preferred stock held by the selling shareholders in this prospectus has no floor, the dilution that existing shareholders could realize is limited only by the number of shares of common stock we are authorized to issue.

Our Independent Auditors Have Expressed Substantial Doubt As To Our Ability To Continue As A Going Concern Our auditors have expressed substantial doubt about our ability to continue as a going concern because of our recurring losses from our development-stage activities in current and prior years. We have not generated any significant revenues to date. We expect to continue to incur substantial net operating losses over the next several years. We may not be able to generate sufficient revenues to become profitable and do not expect to generate any revenues for several years. We struggle with operating and liquidity issues due to our negative cash flows from operations and we have had difficulty in the past with raising capital. As a result of these and other factors, our independent auditors have expressed substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Our Operations Are And Will Be Subject To Extensive Regulation.Our use of MDI-P and SaveCream in the treatment of humans is subject to extensive regulation by United States and foreign governmental authorities. In particular, pharmaceutical treatments are subject to rigorous pre-clinical and clinical testing and other approval requirements by the FDA in the United States under the federal Food, Drug and Cosmetic Act and by comparable agencies in most foreign countries. Various federal, state and foreign statutes also govern or influence the manufacture, labeling, storage, record keeping, and marketing of such products. Pharmaceutical manufacturing facilities are also regulated by state, local, and other authorities. Obtaining approval from the FDA and other regulatory authorities for a new drug or treatment may take several years and involve substantial expenditures. Moreover, ongoing compliance with these requirements can require the expenditure of substantial resources. Difficulties or unanticipated costs may be encountered by us in our efforts to secure necessary governmental approvals, which could delay or preclude us from marketing our products.

Our Products Will Be Exposed To Pricing And Reimbursement Risks.Our ability to earn revenue will depend in part on the extent to which reimbursement for the costs of the products and related treatments will be available from government health administration authorities, private health coverage and managed care organizations. Third-party payers are increasingly challenging the prices of drugs and medical services. If purchasers or users of MDI-P or SaveCream are not able to obtain adequate reimbursement, they may forego or reduce their use.

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

In particular, we face competition from the manufacturers of products that would compete with MDI-P and SaveCream should they be commercialized. Manufacturers of products currently available for the treatment of HIV and cystic fibrosis would be among our most significant competitors in the market for MDI-P. While there are 24 HIV therapies currently on the market (these therapies are commonly used in three- or four-drug combinations), the primary therapies currently in use are produced by Pfizer, Bristol-Myers Squibb, Boehringer Ingelheim, GlaxoSmithKline, Gilead Sciences, Hoffman-La Roche, Merck, Abbott Laboratories, Agouron Pharmaceuticals, and Trimeris. Currently available anti-infectives commonly used in the treatment of cystic fibrosis are manufactured by Bayer Corporation, the maker of Cipro; Pfizer, the maker of Zithromax; and Chiron, the maker of tobramycin solution (TOBI). Bayer and Pfizer would compete with us in the cystic fibrosis market, while MDI-P is being studied as an adjunct to treatment with TOBI, thus we would be unlikely to compete directly with Chiron. Producers of aromatase inhibitors and other breast cancer treatments would compete with SaveCream should we able to commercialize this product. These companies include Astra-Zeneca, the maker of both Tamoxifen and Arimidex; Novartis, the maker of Femara; and Pfizer, the maker of Aromasin.

If and when we obtain regulatory approval for any of the potential uses of our technology which require them, we must then compete for acceptance in the marketplace. Given that such regulatory approval, especially in the United States, may take a number of years, the timing of the introduction of our technology and other products to the market is critical. Other safe and effective drugs and treatments may be introduced into the market prior to the time that we are able to obtain approval for the commercialization of our technology. In addition, even after such regulatory approval is obtained, competition among products approved for sale may be affected by, among other things, product efficacy, safety, reliability, availability, price, and patent position.

The extensive financial and other resources of the major pharmaceutical manufacturers who are our most likely competitors may make it unlikely that we can successfully compete in the HIV, cystic fibrosis and breast cancer markets. As a result, we may seek a development partner or pursue licensing opportunities for these technologies.

Our Intellectual Property May Not Be Adequately Protected. We rely heavily on our patent protection to prevent others from using the human therapeutic applications of our technology. It is our policy to protect our intellectual property and proprietary technologies by, among other means, filing patent applications to protect technology that we consider important to the development of our business.

We also rely on trade secrets and improvements, unpatented know how, and continuing technological innovation to develop and maintain our competitive position. Despite our policy to seek patent protection wherever appropriate, we cannot be sure that our patent applications will result in further patents being issued or that, if issued, the patents will afford protection against competitors with similar technology. We are unaware of any current or past infringement of our patented technologies; however, if such infringement were to occur, sufficient funds may not be available to adequately pursue an action for infringement. While we have obtained several United States patents, persons in jurisdictions outside of the United States in which no application has been filed or which do not honor United States patents may develop and market infringing technologies. Also, the cost of enforcing patents outside North America as well as other obstacles, may limit our ability to enforce any patents outside of the United States. Finally, our products and processes may infringe on patents of others. If relevant claims of third-party patents are upheld as valid and enforceable, we could be prevented from practicing the subject matter claimed in the claims, or be required to obtain licenses or redesign our products or processes to avoid infringement.

We currently hold eight U.S. patents, two Japanese patents and one Mexican patent related to MDI-P. These patents, detailed in the Description of Business section of this prospectus, cover a specific solution, methods of using this solution as an anti-infective, and the equipment and processes necessary to produce it. The durations of these patents range from May 2010 to August 2014. We also have three pending U.S. patent applications relating to methods of using MDI-P to treat cystic fibrosis, sepsis and asthma. The intellectual property assets purchased from Savetherapeutics include the intellectual property rights in four patent families related to SaveCream. These patents and the related international patents and patent applications are detailed in the Description of Business Section.

We May Need to Litigate to Secure Our Rights to SaveCream And Related Assets.At the time we purchased SaveCream and the other intellectual property assets from Savetherapeutics A.G. (SaveT), SaveT had not yet obtained and filed with the appropriate patent offices assignments of the various inventors' rights to the underlying inventions. As a result, at the time the SaveT assets were obtained, the two inventors of SaveCream, Heinrich Wieland and Alfred Schmidt, were the record holders of the U.S. patent rights related to this product. Each of those inventors has agreed and is contractually bound to assign such rights to SaveT. As of September 25, 2005, Heinrich Wieland has executed assignments of his interests in the SaveCream patents to Savetherapeutics and has provided us with a declaration to the U.S. Patent and Trademark Office detailing the agreements by which he and Mr. Schmidt, upon receipt of consideration from SaveT, agreed and intended to transfer these rights to SaveT. Those assignments, along with assignments of Savetherapeutics' rights in the patents to the company, have been filed with the U.S. Patent and Trademark Office.

Despite his prior written agreements to do so, Mr. Schmidt has refused to execute assignments of his rights in the SaveCream patents. To our knowledge, Mr. Schmidt's refusal to undertake his contractual obligation to assign the SaveCream patents has no basis in law. It may be necessary, however, to litigate against Mr. Schmidt in all countries in which patents are filed in order to obtain the assignment of these rights. These countries include the U.S., Germany, Canada, France, Great Britain, Italy, the Netherlands, Switzerland and Spain. We may not have the funds necessary to effectively pursue these claims.

Should we fail to obtain the assignment of Mr. Schmidt's rights in the SaveCream patents, it may be more difficult to commercialize SaveCream should FDA approval for such commercialization be granted. While the product would remain subject to patent protection and we could pursue our development and commercialization activities based upon Dr. Wieland's assignment, Mr. Schmidt as a co-inventor, may be able to independently exploit his rights in the SaveCream patents and could enter into competition with us or license his rights to third parties. This would effectively preclude us from pursing an exclusive licensing or co-development opportunity, and would, therefore substantially reduce the value of this intellectual property to us.

We Face Significant Product Liability. We face an inherent business risk of exposure to product liability and other claims in the event our products result in or are alleged to result in harmful effects. We may not be able to avoid significant liability exposure. We may not have or be able to obtain or maintain sufficient insurance coverage at a reasonable cost. An inability to obtain sufficient insurance coverage at a reasonable cost could prevent or inhibit the commercialization of our technology. Even if we avoid liability exposure, we could incur significant costs that hurt our financial performance. We currently do not have and have not applied for product liability insurance. We intend to purchase product liability insurance prior to commencing clinical trials, and have incorporated the costs of insurance coverage into our budget for the trials.

Risks Specific to the Purchase of Common Stock in This Offering

The Market For Our Stock Is Thin And Subject To Manipulation. Our common stock is traded on the NASD OTC Bulletin Board under the symbol "MLSC." Since our inception, trading in our stock has been sporadic. During the three months ended June 30, 2005, the daily trading volume of our stock averaged 34,329 shares per day. This thin trading market increases the volatility of our stock price and allows trades of even small blocks of stock to have a significant impact on our stock price. Our thin trading market also increases the risk of illegal naked short selling which may cause the stock price to decrease to as low as $0.001 and shareholders to lose essentially all value in their stock. The following table sets forth the range of bid quotations for our common stock for the quarters indicated according to data provided by The NASDAQ Stock Market, Inc. Such quotations reflect inter-dealer prices, without retail mark-ups, markdowns or commissions, and may not represent actual transactions.

PERIOD	HIGH BID	LOW BID
Quarter ended September 30, 2005	0.180	0.080
Quarter ended June 30, 2005	0.170	0.082
Quarter ended March 31, 2005	$ 0.220	$ 0.130
Quarter ended December 31, 2004	0.260	0.180

The Market Price For Our Common Stock Will Likely Be Volatile And May Change Dramatically At Any Time. The market price of our common stock, like that of the securities of other early-stage companies, may be highly volatile. Our stock price may change dramatically as the result of announcements of our quarterly results, the execution or termination of significant customer contracts, significant litigation or other factors or events that would be expected to affect our business or financial condition, results of operations and other factors specific to our business and future prospects. In addition, the market price for our common stock may be affected by various factors not directly related to our business, including the following:

- intentional manipulation of our stock price by existing or future stockholders;
- short selling of our common stock or related derivative securities;
- the interest, or lack of interest, of the market in our business sector, without regard to our financial condition or results of operations;
- the adoption of governmental regulations and similar developments in the United States or abroad that may affect our ability to develop our products or affect our cost structure;
- economic and other external market factors, such as poor economic indicators or investor distrust.

"Penny stock" rules may make buying or selling our securities difficult which may make our stock less liquid and make it harder for investors to buy and sell our shares. Trading in our securities is subject to the SEC's "penny stock" rules and it is anticipated that trading in our securities will continue to be subject to the penny stock rules for the foreseeable future. The SEC has adopted regulations that generally define a penny stock to be any equity security that has a market price of less than $4.00 per share, subject to certain exceptions. These rules require that any broker-dealer who recommends our securities to persons other than prior customers and accredited investors must, prior to the sale, make a special written suitability determination for the purchaser and receive the purchaser's written agreement to execute the transaction. Unless an exception is available, the regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the risks associated with trading in the penny stock market. In addition, broker-dealers must disclose commissions payable to both the broker-dealer and the registered representative and current quotations for the securities they offer. The additional burdens imposed upon broker-dealers by these requirements may discourage broker-dealers from recommending transactions in our securities, which could severely limit the liquidity of our securities and consequently adversely affect the market price for our securities.

We Are Unlikely To Pay Dividends On Our Common Stock In the Foreseeable Future We have never declared or paid dividends on our stock. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business. We do not anticipate paying any cash dividends in the foreseeable future, and it is unlikely that investors will derive any current income from ownership of our stock. This means that your potential for economic gain from ownership of our stock depends on appreciation of our stock price and will only be realized by a sale of the stock at a price higher than your purchase price.

FORWARD-LOOKING STATEMENTS

This prospectus, any supplement to this prospectus and the documents incorporated by reference contains statements that constitute "forward-looking statements" within the meaning of section 27A of the Securities Act and section 21E of the Securities Exchange Act. To the extent that the information presented in this prospectus discusses financial projections, information or expectations about our business plans, results of operations, products or markets, or otherwise makes statements about future events, such statement are forward-looking. Such statements can be identified by the use of the forward-looking words such as "intends," "anticipates," "believes," "estimates," "projects," "forecasts," "expects," "plans," and "proposes" and variations of such words or similar expressions. Additional forward-looking statements may be made by us from time to time.

Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, expressed in good faith and have a reasonable basis, including without limitation, our examination of historical operating trends, data contained in our records and other data available from third parties, there can be no assurance that our expectations, beliefs and projections will result or be achieved or accomplished. There are a number of risks and uncertainties that could cause actual results to differ materially from such forward-looking statements. These include, among others, the cautionary statements in the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of this prospectus. When considering forward-looking statements in this prospectus, you should keep in mind the cautionary statements in the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other sections of this prospectus.

In addition, these forward-looking statements speak only as of the date of this prospectus. We undertake 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.

USE OF PROCEEDS

The aggregate proceeds to the selling stockholders from the sale of the common stock offered by them will be the purchase price of the common stock, less any applicable discounts or commissions. We will not receive any of the proceeds from this offering. Upon any exercise of the warrants by payment of cash, however, we will receive the exercise price of the warrants.

DETERMINATION OF OFFERING PRICE

The offering price of the shares of common stock offered by this prospectus is being determined by each of the selling stockholders on a transaction-by-transaction basis based upon factors that such selling stockholder considers appropriate. The offering prices determined by the selling stockholders may, or may not, relate to a current market price but should not, in any case, be considered an indication of the actual value of the shares of common stock. We do not have any influence over the price at which selling stockholders offer or sell the shares of common stock offered by this prospectus.

DILUTION

Our net tangible book value (tangible assets less total liabilities) at June 30, 2005 was $(1,145,285) or approximately $(0.007) per each of the 107,829,724 shares of common stock then outstanding. Accordingly, new investors who purchase shares will suffer an immediate, total dilution of their investment.

As of October 11, 2005, there were outstanding options to purchase up to 19,483,000 shares of our common stock as well as warrants to purchase up to 40,423,861 shares of our common stock (including the 29,161,158 shares of common stock subject to outstanding warrants being registered in this offering). The existence of those options and conversion rights may hinder future equity offerings by us, and the exercise of those options and conversion rights may have an adverse effect on the value of shares of our common stock. Furthermore, the holders of those options and conversion rights may exercise them at a time when we would otherwise be able to obtain additional equity capital on terms more favorable to us.

SELLING SECURITY HOLDERS

All of the offered shares are to be sold by existing security holders. The selling stockholders acquired the rights to their shares and warrants (i) in a private placement of Series A Convertible Preferred Stock and warrants in October 2004; (ii) in a private placement of Series A Convertible Preferred Stock and warrants in March 2005; and (iii) in exchange for placement agent services and consulting in connection with the foregoing financings.

Of the shares of our common stock offered hereby, 350,000 shares consist of restricted common stock, 84,000,000 shares are issuable upon the conversion of Series A Convertible Preferred Stock, and 29,161,158 shares are issuable upon the exercise of outstanding warrants to purchase our common stock.

In addition, pursuant to Rule 416 of the Securities Act, this prospectus and the registration statement of which it is a part cover a presently indeterminate number of shares of common stock issuable upon the occurrence of a stock split, stock dividend, or other similar transaction.

For purposes of this prospectus, we have assumed that the number of shares issuable upon exercise of each of the warrants is the number stated on the face thereof. The number of shares issuable upon exercise of the warrants, and available for resale

hereunder, is subject to adjustment and could materially differ from the estimated amount depending on the occurrence of a stock split, consolidation stock dividend, or similar transaction resulting in an adjustment in the number of shares subject to the warrants.

The 84,000,000 shares potentially issuable upon conversion of the Series A stock are issuable upon conversion of two issuances of such Series A stock. While we are required to register an aggregate of only 84,000,000 shares of common stock pursuant to those issuances, the actual number of shares into which the Series A stock could be converted could be much greater. Specifically, on October 18, 2004 we issued 12,000 shares of Series A stock to Monarch Pointe Fund, Ltd. Under the terms of that issuance, each share of Series A stock entitles the holder to convert the share into the number of shares of common stock resulting from dividing $100 (which is the purchase price per share of Series A stock) by the conversion price. The conversion price is 85% of the average of the lowest three intra-day trading prices for our common stock during the 10 trading days immediately preceding the conversion date, but the conversion price may not exceed $0.1967 or be lower than $0.05. We are registering 24,000,000 shares of common stock in connection with that issuance (which is based on the floor conversion price of $0.05 per share and is the number of shares required to be registered pursuant to the applicable registration rights agreement with Monarch Pointe Fund, Ltd.). On March 14, 2005 we issued 30,000 shares of Series A stock to Mercator Momentum Fund, LP and Mercator Momentum Fund III, LP. Under the terms of that issuance, each share of Series A stock entitles the holder to convert the share into the number of shares of common stock resulting from dividing $100 (which is the purchase price per share of Series A stock) by the conversion price. The conversion price is 75% of the average of the lowest three intra-day trading prices for our common stock during the 10 trading days immediately preceding the conversion date, but the conversion price may not exceed $0.1967. There is no minimum conversion price per share for that issuance. We are registering 60,000,000 shares of common stock in connection with that issuance (which is based on an assumed conversion price of $0.05 per share and is the number of shares required to be registered pursuant to the applicable registration rights agreement with Mercator Momentum Fund, LP and Mercator Momentum Fund III, LP).

Notwithstanding our obligation to register 84,000,000 shares of common stock upon conversion of the Series A stock, the actual minimum and maximum number of shares of common stock into which the outstanding Series A stock could be converted is as follows:

	Shares of Common Stock Into Which Series A May Be Converted	
	Minimum	Maximum
12,000 Shares of Series A issued 10/18/04	6,100,661	24,000,000
30,000 Shares of Series A issued 03/14/05	15,251,652	Theoretically unlimited(1)
Total	21,352,313	Theoretically unlimited(1)

(1) Because the conversion price has no floor, it theoretically could be infinitely small, resulting in conversion into an infinitely large number of shares of common stock. Practically, the number of shares of common stock into which the Series A could be converted is limited by two factors: the number of shares of common stock authorized (a total of 250,000,000) and the limitation in the Series A financing documents that prohibits the Series A shareholders from beneficially owning more than 9.99% of the issued and outstanding common stock at any one time. See the sections of this prospectus entitled “Selling Security Holders” and “Security Ownership Of Certain Beneficial Owners And Management.”

The table below sets forth, as of October 10, 2005:

- the name of each selling stockholder;
- certain beneficial ownership information with respect to the selling stockholders;
- the number of shares that may be sold from time to time by each selling stockholder pursuant to this prospectus; and
- the amount (and, if 1% or more, the percentage) of shares of common stock to be owned by each selling stockholder if all offered shares are sold.

Beneficial ownership is determined in accordance with SEC rules and generally includes voting or investment power with respect to securities. Shares of common stock that are issuable upon the

conversion of Preferred stock or exercise of outstanding warrants held by a selling stockholder, to the extent exercisable within 60 days of October 11, 2005, are treated as outstanding for purposes of computing each selling stockholder's ownership of outstanding shares of common stock and percentage ownership (but not the percentage ownership of other selling stockholders). The number of shares of common stock into which Series A convertible preferred stock is convertible is based on the applicable conversion prices as of October 11, 2005.

	Beneficial Ownership Before Offering			Beneficial Ownership upon Completion of the Offering	
Beneficial Owner	Number of Shares	Percent	Number of Shares Being Offered	Number of Shares	Percent
Monarch Pointe Fund, Ltd.	16,291,975(1)	12.91(5)	16,291,975	—	—
Mercator Momentum Fund, LP	27,930,240(2)	20.26(5)	27,930,240	—	—
Mercator Momentum Fund III, LP	19,308,021(3)	14.94(5)	19,308,021	—	—
Mercator Advisory Group, LLC	75,884,074(4)	40.83(5)	75,884,074	—	—
Ascendiant Securities, LLC	1,708,184(6)	1.53	1,708,184	—	—
Ascendiant Capital Group, LLC	350,000(7)	0.32	350,000	—	—

(1) Includes 3,660,396 shares that may be acquired upon exercise of currently exercisable warrants and includes 12,631,579 shares of common stock issuable upon conversion of 12,000 shares of Series A convertible preferred stock based on an assumed conversion price of $ 0.095. Mercator Advisory Group, LLC controls the investments of Monarch Pointe Fund, Ltd. and David F. Firestone is the managing member of Mercator Advisory Group, LLC.

(2) Includes 6,748,856 shares that may be acquired upon exercise of currently exercisable warrants and includes 21,181,384 shares of common stock issuable upon conversion of 17,750 shares of Series A convertible preferred stock based on an assumed conversion price of $ 0.0838. Mercator Advisory Group, LLC is the general partner of this partnership and David F. Firestone is the managing member of Mercator Advisory Group, LLC.

(3) Includes 4,689,883 shares that may be acquired upon exercise of currently exercisable warrants and includes 14,618,138 shares of common stock issuable upon conversion of 12,250 shares of Series A convertible preferred stock based on an assumed conversion price of $ 0.0838. Mercator Advisory Group, LLC is the general partner of this partnership and David F. Firestone is the managing member of Mercator Advisory Group, LLC.

(4) Includes 12,353,838 shares that may be acquired upon exercise of currently exercisable warrants and includes shares beneficially owned by Monarch Pointe Fund, Ltd., Mercator Momentum Fund, LP, and Mercator Momentum Fund III, LP. David F. Firestone is the managing member of this LLC.

(5) Notwithstanding these percentages, each of these entities individually is and all of them in the aggregate are limited by the terms of the Series A Preferred Stock and by the applicable warrants to owning no more than 9.99% of our outstanding common stock at any given time.

(6) Represents shares that may be acquired upon exercise of currently exercisable warrants. Ascendiant Securities, LLC is a wholly-owned subsidiary of Ascendiant Capital Group, LLC. The beneficial owners of Ascendiant Capital Group, LLC are Bradley Wilhite and Mark Bergendahl. Messrs. Wilhite and Bergendahl are registered principals of Ascendiant Securities, LLC, a registered broker-dealer.

(7) Represents restricted common stock. The beneficial owners of Ascendiant Capital Group, LLC are Bradley Wilhite and Mark Bergendahl. Messrs. Wilhite and Bergendahl are registered principals of Ascendiant Securities, LLC, a registered broker-dealer.

PLAN OF DISTRIBUTION

The selling stockholders, which as used herein includes donees, pledgees, transferees or other successors-in-interest selling shares of common stock or interests in shares of common stock received after the date of this prospectus from a selling stockholder as a gift, pledge, partnership distribution or other transfer, may, from time to time, sell, transfer or otherwise dispose of any or all of their shares of common stock or interests in shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These dispositions may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices.

The selling stockholders may use any one or more of the following methods when disposing of shares or interests therein:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling stockholders may, from time to time, pledge or grant a security interest in some or all of the shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock, from time to time, under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus. The selling stockholders may also transfer the shares of common stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling stockholders may also sell shares by means of short sales to the extent permitted by United States securities laws. Short sales involve the sale by a selling shareholder, usually with a future delivery date, of shares of common stock that the seller does not own. Covered short sales are sales made in an amount not greater than the number of shares subject to the short seller's warrant, exchange right or other right to acquire shares of common stock. A selling shareholder may close out any covered short position by either exercising its warrants or exchange rights to acquire shares of common stock or purchasing shares in the open market. In determining the source of shares to

close out the covered short position, a selling shareholder will likely consider, among other things, the price of shares of common stock available for purchase in the open market as compared to the price at which it may purchase shares of common stock pursuant to its warrants or exchange rights.

Naked short sales are any sales in excess of the number of shares subject to the short seller's warrant, exchange right or other right to acquire shares of common stock. A selling shareholder must close out any naked position by purchasing shares. A naked short position is more likely to be created if a selling shareholder is concerned that there may be downward pressure on the price of the shares of common stock in the open market.

The existence of a significant number of short sales generally causes the price of the shares of common stock to decline, in part because it indicates that a number of market participants are taking a position that will be profitable only if the price of the shares of common stock declines. Purchases to cover naked short sales may, however, increase the demand for the shares of common stock and have the effect of raising or maintaining the price of the shares of common stock.

The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities that require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The selling stockholders also may resell all or a portion of the shares in open market transactions in reliance upon Rule 144 under the Securities Act, provided that they meet the criteria and conform to the requirements of that rule.

The selling stockholders and any underwriters, broker-dealers or agents that participate in the sale of the common stock or interests therein may be "underwriters" within the meaning of Section 2(11) of the Securities Act. Any discounts, commissions, concessions or profit they earn on any resale of the shares may be underwriting discounts and commissions under the Securities Act. Selling stockholders who are "underwriters" within the meaning of Section 2(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act.

To the extent required, the shares of our common stock to be sold, the names of the selling stockholders, the respective purchase prices and public offering prices, the names of any agents, dealers or underwriters, and any applicable commissions or discounts with respect to a particular offer will be set forth in an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement that includes this prospectus.

Expenses, Indemnification and Registration Obligations. We are paying the expenses incurred in connection with preparing and filing this prospectus and the registration statement to which it relates, other than selling commissions. We have not retained any underwriter, broker or dealer to facilitate the offer or sale of the shares offered hereby. We will pay no underwriting commissions or discounts in connection therewith.

We have agreed to indemnify the selling stockholders against liabilities, including liabilities under the Securities Act and state securities laws, relating to the registration of the shares offered by this prospectus. The selling stockholders may indemnify any broker-dealers that participate in transactions involving the sale of the shares against certain liabilities, including liabilities arising under the Securities Act.

We have agreed with the selling stockholders to keep the registration statement of which this prospectus constitutes a part effective until the earlier of (i) such time as all of the shares covered by this prospectus have been disposed of pursuant to and in accordance with the registration statement or (ii) the date on which the shares may be sold pursuant to Rule 144(k) of the Securities Act.

Passive Market Making. We have advised the selling stockholders that while they are engaged in a distribution of the shares offered pursuant to this prospectus, they are required to comply with Regulation M promulgated under the Securities Exchange Act of 1934, as amended. With certain exceptions, Regulation M precludes the selling stockholders, any affiliate purchasers and any broker-dealers or other persons who participate in the distribution from bidding for or purchasing, or attempting to induce any person to bid for or purchase, any security that is subject to the distribution until the entire distribution is complete. Regulation M also restricts bids or purchases made in order to stabilize the price of a security in connection with the distribution of that security. We do not intend to engage in any passive market making or stabilization transactions during the course of the distribution described in this prospectus. All of the foregoing may affect the marketability of the shares offered pursuant to this prospectus.

Limitations. We have advised the selling stockholders that, to the extent necessary to comply with governing state securities laws, the offered securities should be offered and sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, we have advised the selling stockholders that the offered securities may not be offered or sold in any state unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available with respect to such offers or sales.

LEGAL PROCEEDINGS

We are not aware of any legal proceedings against us. We may however be involved, from time to time, in various legal proceedings and claims incident to the normal conduct of our business.

DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

The following table sets forth certain information regarding the executive officers and directors of Medical Discoveries, Inc. as of October ___, 2005.

Name	Age	Title	Term of
David R. Walker	60	Chairman of the Board of Directors	7 Years
Judy Robinett	52	President and Chief Executive Officer, Director	4 Years
Larry Anderson	55	Director	1 Year
Stephen R. Drake	36	Secretary	1 Year

David R. Walker

David R. Walker joined the Board of Directors on May 2, 1996, and was appointed Chairman of the Board of Directors on May 10, 1998. He has served as Chairman of the Audit Committee since its inception in 2001. For over 20 years, Mr. Walker has held the office of General Manager of Sunheaven Farms, the largest onion growing and packing entity in the State of Washington with annual revenues in excess of $50 million. In the capacity of General Manager, Mr. Walker performs the functions of a traditional chief financial officer. Mr. Walker holds a Bachelor of Arts degree in economics from Brigham Young University with minors in accounting and finance.

Judy Robinett

Judy M. Robinett has held the office of President and Chief Executive Officer since November, 2000, and joined the Board of Directors on February 9, 2001. Since 1994, she has owned and operated an international consulting company focused on strategic planning, finance, marketing, and distribution for entrepreneurs and established companies. Prior to that, Ms. Robinett's employment positions included Vice President for Quality Improvement for a regional hospital, Division Manager for Universal Foods, Group Manager for EG&G's Nuclear Training Facility in Idaho, and a Planner for the State of Idaho. Ms. Robinett has published more than 50 articles on business finance and operations and is a recognized authority on quality control. Ms. Robinett holds a Bachelors of Sciences degree in psychology and a Masters degree in labor economics from Utah State University.

Larry Anderson

Larry Anderson has a wide range of investment banking, sales and entrepreneurial experience. He has held investment banking and stock broker positions with Merrill Lynch (1984 to 1987), Oppenheimer (1987) and Kidder Peabody (1992), managing up to $300 million in accounts. Mr. Anderson has significant sales experience including holding national sales leader awards while at Automatic Data Processing and Qantel Computer Corporation. Mr. Anderson is an entrepreneur with numerous start-ups and turn-arounds to his credit. Within the last 5 years he has owned and operated or currently owns and operates, among other companies, C Innovation Inc, a 36-employee K-12 educational software company located in Claremont, California; Success Finance, a small contract financing company based in Utah; Complete Nursing Services a 28-employee terminally ill child care company in the State of Washington; All Home Care, a 65-employee aged home care company in California; and Future Now Enterprises, LLC in Utah. The combined yearly payroll of his businesses is over $6 million. Anderson currently lives in Salt Lake City, Utah.

Stephen R. Drake

Stephen R. Drake was elected Secretary of the Company effective as of April 1, 2004. He has served as legal counsel to the Company since November 2000. Mr. Drake is an attorney in private practice with Epstein Becker and Green, P.C. in Chicago, Illinois, where he practices corporate and securities law. Mr. Drake received a Bachelors of Arts degree, *cum laude,* from Albertson College in 1991 and a Juris Doctor degree,*cum laude,* from Willamette University College of Law in 1996.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding persons known by the Company to beneficially own, as defined by Rule 13d-3 under the Securities Exchange Act of 1934, more than 5% of Common Stock as of October 11, 2005, based solely on information regarding such ownership available to the Company in filings by such beneficial owners with the SEC on Schedules 13D and 13G. The following table also sets forth information regarding beneficial ownership of Common Stock as of October 11, 2005, by the Directors and the Named Executive Officer and by the Directors and Named Executive Officer as a group.

Name and Address of Beneficial Owner(a)	Number of Shares and Nature of Beneficial Ownership (b)	Percent of Class
Certain Beneficial Owners:		
Monarch Pointe Fund, Ltd. 555 S. Flower St., Suite 4500 Los Angeles, CA 90071	16,291,975(c)	12.91(k)
Mercator Momentum Fund, LP 555 S. Flower St., Suite 4500 Los Angeles, CA 90071	27,930,240(d)	20.26(k)
Mercator Momentum Fund III, LP 555 S. Flower St., Suite 4500 Los Angeles, CA 90071	19,308,021(e)	14.94(k)
Mercator Advisory Group, LLC 555 S. Flower St., Suite 4500 Los Angeles, CA 90071	75,884,074(f)	40.83(k)
David F. Firestone(g) 555 S. Flower St., Suite 4500 Los Angeles, CA 90071	75,884,074(g)	40.83 (k)
Judy M. Robinett	16,030,000(h)	12.73
Directors/Named Executive Officer:		
David R. Walker	1,153,539(i)	1.04
Judy M. Robinett	16,030,000(h)	12.73
Larry Anderson	250,000	*
All Directors and Executive Officers as a Group (3 persons)	17,433,539(j)	13.76

* Less than 1%

(a) Unless otherwise indicated, the business address of each person listed is c/o Medical Discoveries, Inc., 1338 S. Foothill Drive, #266, Salt Lake City, Utah 84108.

(b) For purposes of this table, shares are considered to be beneficially owned if the person directly or indirectly has the sole or shared power to vote or direct the voting of the securities or the sole or shared power to dispose of or direct the disposition of the securities. Shares are also considered beneficially owned if a person has the right

to acquire the beneficial ownership of the shares within 60 days of October 11, 2005. Unless otherwise indicated in these footnotes, each shareholder has sole voting and investment power with respect to the shares beneficially owned.

(c) Includes 3,660,396 shares that may be acquired upon exercise of currently exercisable warrants and includes 12,631,579 shares of common stock issuable upon conversion of 12,000 shares of Series A convertible preferred stock based on an assumed conversion price of $ 0.095, which would have been the applicable conversion price as of October 11, 2005.

(d) Includes 6,748,856 shares that may be acquired upon exercise of currently exercisable warrants and includes 21,181,384 shares of common stock issuable upon conversion of 17,750 shares of Series A convertible preferred stock based on an assumed conversion price of $ 0.0838, which would have been the applicable conversion price as of October 11, 2005.

(e) Includes 4,689,883 shares that may be acquired upon exercise of currently exercisable warrants and includes 14,618,138 shares of common stock issuable upon conversion of 12,250 shares of Series A convertible preferred stock based on an assumed conversion price of $ 0.0838, which would have been the applicable conversion price as of October 11, 2005.

(f) Includes 12,353,838 shares that may be acquired upon exercise of currently exercisable warrants and includes shares beneficially owned by Monarch Pointe Fund, Ltd., Mercator Momentum Fund, LP, and Mercator Momentum fund III, LP.

(g) Represents shares beneficially owned by Mercator Advisory Group, LLC.

(h) Includes 16,000,000 shares that may be acquired upon the exercise of currently exercisable stock options.

(i) Includes 750,000 shares that may be acquired upon the exercise of currently exercisable stock options.

(j) Includes 16,750,000 shares that may be acquired upon the exercise of currently exercisable stock options.

(k) Notwithstanding these percentages, each of these entities individually is and all of them in the aggregate are limited by the terms of the Series A Preferred Stock and by the applicable warrants to owning no more than 9.99% of our outstanding common stock at any given time.

DESCRIPTION OF SECURITIES

The following description of our authorized capital stock is subject to the detailed provisions of our Articles of Incorporation. Our Articles of Incorporation are included as Exhibit 2.1 to the registration statement.

The aggregate number of shares of capital stock authorized for issuance by our Articles of Incorporation is 300,000,000, of which 250,000,000 are shares of common stock, no par value, and 50,000,000 are shares of preferred stock, no par value.

Common Stock.

As of October 11, 2005, there were 109,951,195 shares of common stock issued and outstanding and 1,472 stockholders of record.

Dividend Rights. We have never declared or paid any cash dividends on our voting ordinary shares. Any future payment of dividends will be made at the discretion of our Board of Directors based upon conditions then existing, including earnings, financial condition and capital requirements as well as such economic and other conditions as our Board of Directors may deem relevant. Our By-Laws provide that the Board of Directors may, from time to time declare, and we may pay dividends on our outstanding shares in the manner and upon the terms and conditions provided by law.

Voting. Holders of our common stock are entitled to cast one vote in person or by proxy for each share of such common stock standing in his name on the stock transfer records of the Corporation. No shareholder has the right to cumulate votes in the election of directors. Currently, there are three members on our Board of Directors.

Dissolution Rights. In the event of any liquidation, dissolution or winding up of the affairs of the Company, after any preferential amount with respect to the Preferred Stock has been paid or reserved, the holders of Common Stock and the holders of any series of Preferred Stock entitled to participate in the distribution of assets are entitled to receive the net assets of the Company.

***Preemptive Rights*.** There are no preemptive rights authorized by our Articles of Incorporation or our By-Laws.

***Redemption*.** There are no redemption provisions applicable to our common stock.

Certain Provisions of the Articles of Incorporation. Our Articles of Incorporation provide that we may indemnify and advance expenses to its directors, officers, employees, fiduciaries or agents and to any person who is or was serving at the Corporation's request as a director, officer, partner, trustee, employee, fiduciary or agent of another domestic or foreign corporation or other person or of an employee benefit plan (and their respective estates or personal representatives) to the fullest extent as from time to time permitted by Utah law.

Preferred Stock.

As of October 11, 2005, there were 42,000 shares of Series A Convertible Preferred Stock issued and outstanding.

Dividend Rights. The holders of Series A Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of any assets of the Company legally available therefore, such dividends as may be declared from time to time by the Board of Directors.

Voting. The Series A preferred stock is non-voting.

Dissolution Rights. In the event of any liquidation, dissolution or winding up of the Company, the holders of Series A Preferred Stock are entitled to be paid first out of the assets of the Company available for distribution to shareholders an amount equal to the $100.00 per share purchase price of each share of Series A Preferred Stock held, plus any declared but unpaid dividends on such share, before payment is to be made to the holders of the Common Stock.

Other Preferred Stock. Our Articles of Incorporation authorize the issuance of Preferred Stock in one or more series, from time to time, by the Board of Directors without further vote of the shareholders, except as may be provided for under applicable law or the rules of any stock exchange or other market system on

which the preferred tock may then be listed or traded. The rights of the Board of Directors to designate and issue specific series of Preferred Stock will include, without limitation, the right to determine or designate the following with respect to each series:

- The distinctive designation and number of shares comprising such series, which number may (except where otherwise provided by the Board of Directors in creating such series) be increased or decreased (but not below the number of shares then outstanding) from time to time by like action of the Board of Directors;
- The dividend rate of such series, the conditions and times upon which such dividends shall be payable, the relation which such dividends shall bear to the dividends payable on any other class or classes of stock or series thereof, or on the other series of the same class, and whether dividends shall be cumulative or non-cumulative;
- The conditions upon which the shares of such series shall be subject to redemption by the Company and the times, prices and other terms and provisions upon which the shares of the series may be redeemed;
- Whether or not the shares of the series shall be subject to the operation of retirement or sinking fund provisions to be applied to the purchase or redemption of such shares and, if such retirement or sinking fund be established, the annual amount thereof and the terms and provisions relative to the operation thereof;
- Whether or not the shares of the series shall be convertible into or exchangeable for shares of any other class or classes, with or without par value, or of any other series of the same class and, if provision is made for conversion or exchange, the times, prices, rates, adjustments and other terms and conditions of such conversion or exchange;
- Whether or not the shares of the series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;
- The rights of the shares of the series in the event of voluntary or involuntary liquidation, dissolution or upon distribution of assets of the Company; and
- Any other designations, preferences, limitations and relative rights of the shares of such series, as the Board of Directors may deem advisable.

INTEREST OF NAMED EXPERTS AND COUNSEL

The validity of the common stock offered hereby will be passed upon for us by Epstein Becker & Green, P.C. Our Secretary, Stephen R. Drake, is a member of Epstein Becker & Green, P.C. As of the date of this prospectus, a member of Epstein Becker & Green, P.C. holds an aggregate of 33,000 shares of our common stock and an option to purchase 300,000 shares of our common stock at $0.05 per share.

LIMITATION OF LIABILITY AND INDEMNIFICATION

Our Articles of Incorporation provide that we will indemnify and advance expenses to our directors, officers, employees, fiduciaries or agents and to any person who is or was serving at our request as a director, officer, partner, trustee, employee, fiduciary or agent

of another domestic or foreign corporation or other person or of an employee benefit plan (and their respective estates or personal representatives) to the fullest extent as from time to time permitted by Utah law. The personal liability of our directors and officers to us or our shareholders, or to any third person, will be eliminated or limited to the fullest extent as from time to time permitted by Utah law.

Our Bylaws provide that we shall indemnify any director or officer if a determination has been made that the director or officer acted in good faith, he or she reasonably believed that his or her conduct was in, or not opposed to, the Company's best interests. The Bylaws provide that we shall not indemnify a director or officer if the director or officer, in connection with any proceeding by or in the right of the Company in which he or she was adjudged liable to the Company or any other proceeding he or she was adjudged liable on the basis that he or she derived an improper benefit.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

DESCRIPTION OF BUSINESS

Medical Discoveries, Inc. was incorporated on November 20, 1991 as a Utah corporation and maintains its principal offices at 1338 S. Foothill Drive, #266, Salt Lake City, Utah 84108. Our telephone number is (801) 582-9583 and our web address is www.medicaldiscoveries.com. We are a developmental-stage bio-pharmaceutical company engaged in the research, validation, development and ultimate commercialization of two drugs: MDI-P and SaveCream. MDI-P is an anti-infective drug that we believe will be a safe and effective treatment for bacterial infections, viral infections and fungal infections. We further believe that MDI-P will be a safe and effective treatment for cystic fibrosis. SaveCream is a breast cancer medication that is applied topically to reduce breast cancer tumors. Both of these drugs are still in development and have not been approved by the U. S. Food and Drug Administration (FDA).

Our initial target indications for MDI-P are cystic fibrosis and HIV. We have filed an Investigational New Drug application (IND) with the FDA seeking permission to begin Phase I human clinical trials of MDI-P as a treatment for cystic fibrosis. The FDA has responded to our IND and we are hopeful that we can satisfactorily answer the FDA's questions and satisfy the FDA's follow-up requests for further animal testing, resulting in the FDA approving the application. If the FDA approves that IND, we will begin human trials at St. Luke's Regional Medical Center in Boise, Idaho using a protocol designed by Dr. Henry Thompson. If our Phase I IND for cystic fibrosis is successful, we intend to file an IND for Phase I testing of MDI-P as a treatment for HIV at Harvard School of Medicine using a protocol designed by Dr. Bruce Dezube. We also expect to add additional indications for the use of MDI-P in the future as we further our preclinical development.

We recently purchased SaveCream from a German biotechnology company. In a European Union study of SaveCream used by over 100 women diagnosed with Stage 4 breast cancer, a significant number of those women experienced a significant tumor reduction. This preliminary study showed an average reduction in tumor size of fifty percent in two weeks. If these preliminary results are realized in further clinical testing, this compound may be a useful neoadjuvant therapy for reducing tumor size, increasing the potential for breast-saving surgery in place of mastectomy. We are in the process of developing a global commercialization strategy for SaveCream.

To date, we have not generated significant revenues from operations or realized a profit. Through June 30, 2005, we had incurred cumulative net losses since inception of $20,971,633.

Recent Developments.

SaveCream. On March 16, 2005, Medical Discoveries, Inc. (the "Company") completed the purchase of the intellectual property assets (the "Assets") of Savetherapeutics AG, a German corporation in liquidation in Hamburg, Germany ("SaveT"). The Assets consist primarily of patents, patent applications, pre-clinical study data and anecdotal clinical trial data concerning SaveCream, SaveT's developmental topical aromatase inhibitor treatment for breast cancer. The purchase price of the Assets is €2,350,000 (approximately $3.1 million under current exchange rates) payable as follows: €500,000 at closing, €500,000 upon conclusion of certain pending transfers of patent and patent application rights from SaveT's inventors to the Company, and €1,350,000 upon successful commercialization of the Assets. The Company's source of funds for the acquisition is a $3 million equity investment by Mercator Momentum Fund LP and Mercator Momentum Fund III LP. Neither SaveT nor any employee of SaveT has a material relationship with the Company or any of its affiliates, any director or officer of the Company or any associate of any such director or officer.

Before it ceased business in 2004, Savetherapeutics (SaveT) had been developing SaveCream, a topical steroidal form of aromatase inhibitor (AI) for breast cancer that never generated revenues for SaveT. This promising cancer therapeutic product has been tested in the European Union under a unique German regulatory scheme that allows patients with limited treatment options to receive novel treatments. In the study, over 100 women diagnosed with breast cancer received special permission to be treated with SaveCream. A significant number of those women experienced a significant reduction in tumor size of fifty percent in two weeks. We are in the process of developing a global commercialization strategy for SaveCream, to include certain preclinical studies including toxicology and pharmacokinetics, as well as the development of future clinical protocols.

M.A.G. Capital, LLC (formerly Mercator Advisory Group, LLC), through its designated funds, Mercator Momentum Fund, L.P., and Mercator Momentum Fund III, L.P., provided us with $3 million for the purchase, pursuant to terms described below.

We would like to initiate a preclinical development program for SaveCream, however we do not currently have the funds to do so. Should we be unable to fund preclinical testing necessary to file an IND, we may instead seek a co-development partner or out-licensing opportunities for this product.

We analyzed whether the intellectual property purchased was a business within the contemplation of Regulation S-X, and concluded that no such business had been acquired.

Series A Preferred Stock Financings. On or about March 14, 2005, we closed the second of two rounds of Series A Preferred Stock financing with M.A.G. Capital, LLC (formerly Mercator Advisory Group, LLC). In this round, we sold 30,000 shares of Preferred Stock and warrants to purchase 22,877,478 shares of common stock for a total offering price of $3 million. Each share of Preferred Stock entitles the holder to convert the share of Preferred Stock into the number of shares of common stock resulting from multiplying $100 by the conversion price. The conversion price for this round is 75% of the average of the lowest three intra-day trading prices for our common stock during the 10 trading days immediately preceding the conversion date, but the conversion price may not exceed $0.1967. The number of shares of common stock subject to the warrants and the exercise price are subject to equitable adjustment in connection with a stock split, stock dividend or similar transaction. The warrants entitle the holder to purchase up to 22,877,478 shares of our common stock on or before the third anniversary of the issuance date of the warrants at $0.1967 per share. The number of shares of common stock subject to the warrants and the exercise price are subject to equitable adjustment in connection with a stock split, stock dividend or similar transaction. In connection with this financing, we issued to a placement agent warrants that entitle the holder to purchase up to 1,220,132 shares of our common stock on or before the third anniversary of the issuance date of the warrants at $0.1967 per share.

On or about October 18, 2004, we closed the first of two rounds of Series A Preferred Stock financing with M.A.G. Capital, LLC (formerly Mercator Advisory Group, LLC). In this round, we sold 12,000 shares of Preferred Stock and warrants to purchase 4,575,496 shares of common stock for a total offering price of $1.2 million. Each share of Preferred Stock entitles the holder to convert the share of Preferred Stock into the number of shares of common stock resulting from multiplying $100 by the conversion price. The conversion price for this round is 85% of the average of the lowest three intra-day trading prices for our common stock during the 10 trading days immediately preceding the conversion date, but the conversion price may not exceed $0.1967 or be lower than $0.05. The number of shares of common stock subject to the warrants and the exercise price are subject to equitable adjustment in connection with a stock split, stock dividend or similar transaction. The warrants entitle the holder to purchase up to 4,575,496 shares of our common stock on or before the third anniversary of the issuance date of the warrants at $0.1967 per share. The number of shares of common stock subject to the warrants and the exercise price are subject to equitable adjustment in connection with a stock split, stock dividend or similar transaction. In connection with this financing, we issued to a placement agent 350,000 shares of restricted common stock and warrants that entitle the holder to purchase up to 488,052 shares of our common stock on or before the third anniversary of the issuance date of the warrants at $0.1967 per share.

In connection with the Series A Preferred Stock financings, we agreed with the investors to register the shares of common stock into which the Preferred Stock is convertible and the warrants are exercisable. This prospectus relates to our registration of those shares.

Cystic Fibrosis IND. We are continuing to pursue our IND for cystic fibrosis with the FDA. We have agreed with the FDA on a large animal model protocol to establish pharmacological safety with relation to cardiovascular and central nervous system toxicity as well as in-vitro work on genotoxicity for this IND. We have entered into fixed price contracts for all of the research services we expect will be required to meet the FDA's request for additional preclinical information and for Phase I testing. We have budgeted for these costs and believe we have sufficient funds to initiate this testing, however we may need to raise additional capital to complete all of the necessary testing. Much of the preclinical testing requested by the FDA has been completed with positive results. Our contracts for the additional outstanding testing require completion of this work by December 31, 2005. In the interim, we are preparing a submission of the existing data to the FDA in hopes of being permitted to proceed with Phase I testing pending the outcome of the remaining preclinical work. We anticipate that we may be able to start Phase I clinical trials on cystic fibrosis as early as Q1 of 2006.

Business Strategy. Our highest priorities are to:

- gain FDA approval of our IND for cystic fibrosis and commence human clinical trials;
- file an IND for HIV; and
- develop a commercialization strategy for SaveCream.

Our second priorities are the completion of a longer-range strategic business plan in which we utilize the intellectual property that has been developed over the last decade and determine an appropriate direction for future development of the business over the next five to ten years. Some of the issues we will be dealing with will include:

- Listing the Company's common stock on a stock exchange or NASDAQ
- How to provide shareholders with liquidity, transparency and a return on investment
- A decision on whether or when to relocate the Company or maintain its current location
- A decision as to what staffing requirements the Company will have, when to bring additional permanent staff on board and the best route for recruiting those staff members
- Additional target indications and the formulation and development process required for those target indications
- A comprehensive intellectual property strategy
- A potential partnering strategy
- Projected long-term financing requirements

MDI-P: Novel Anti-Infective Technology. MDI-P is an anti-effective drug that we believe will be useful treatment for bacterial infections, viral infections and fungal infections. MDI-P appears to work by virtue of the direct virus-, bacteria- and fungus-killing effect of several of the powerful oxidants present in the MDI-P solution. The MDI-P solution contains oxidants such as various hypochlorous acid chains, ozone and dilute hydrogen peroxide. These oxidants, traditionally believed to have a very short half-life in their natural state, seem to exhibit stability of one month or longer in MDI-P.

During the past nine years, we have conducted a variety of cell line testing at the following university and medical research institutions, among others:

Stratton V.A. Medical Center, Albany, New York
Albany Medical College, Albany, New York
Indiana University School Of Medicine And Dentistry
University of California, Los Angeles
Baylor College of Medicine and Dentistry, Dallas, Texas
Dana-Farber Cancer Institute, Boston, Massachusetts
University of Washington Medical School

Highlights from those tests include the following:

- In 1998, we initiated *in vitro* testing, conducted at the Dana-Farber Cancer Institute in Boston, Massachusetts, a major teaching affiliate of the Harvard Medical School. The results of this independent testing confirmed that MDI-P achieved destruction of more than 90% of the HIV virus in cell cultures, with no toxicity to the cells.

- In 2000, data and results published by Dr. Aldonna Baltch, M.D., of the Stratton V.A. Medical Center and Albany Medical College, Albany NY, indicated that MDI-P is a potent antibacterial and anti-fungal agent. Dr. Baltch's work demonstrated that MDI-P was effective in destroying the fungi *Candida albicans* and *Legionella pneumophillia* (Legionnaire's Disease) within 60 seconds of exposure to the fungi with no evidence of cell toxicity. This work was published in The American Journal of Infection Control in 2000 and as abstracts of the American Society of Microbiology meetings in 1997 and 1998.

- Toxicity tests completed in 2001 by WIL Research Laboratories demonstrated that various strengths of MDI-P (up to a 50% solution strength) produced no systemic toxicity in laboratory animal tests used to assess potential problems for human application. These studies were conducted following FDA guidelines and have helped establish that MDI-P is reasonably safe for human clinical trials.

- In 2004, Dr. Emil Chi, Chairman of the Department of Histopathology at the University of Washington Medical School conducted a mouse study focused on MDI-P as a potential therapeutic agent for the treatment of sepsis. The results reaffirmed the anti-infective strength and low toxicity profile in preclinical models of MDI-P.

- In 2004, we also commissioned a mouse study by Dr. Chi focused on MDI-P as a potential therapeutic agent for the treatment of the symptoms of asthma. In the study, 36 female mice were examined in a chronic asthma model, using various doses of MDI-P as a therapeutic agent as measured against a saline control. Samples of bronchial lavage lung fluid and tissue were taken from all mice, with assays performed in airway mucus build-up and eosinophil infiltration, a prime blood cell measure of asthmatic attacks. More than 70% of the MDI-P treated mice exhibited no increase in mucus secretions, comparable with saline control animals, with a marked reduction in eosinophil infiltration. Untreated asthmatic mice, in contrast, had more than a nine-fold increase in mucus build-up as compared with saline controls. Further, no toxicity was found in the MDI-P treated mice.

- On July 15, 2004, we announced our receipt from Clagett Consulting of a large mammal toxicity report for MDI-P. The study found no sign of any toxicity from MDI-P in the anatomy, behavior, clinical chemical, hematological, or histopathological measures of adverse events. The study was conducted in a rabbit species (New Zealand white rabbits) because of their acknowledged hyper-reactivity to toxicity in drugs. These results, when combined with our prior toxicological work, suggest that MDI-P should not cause toxic events in humans. Also included in the Clagett Consulting report was a further genomic analysis for toxicology of MDI-P. This genomics analysis indicated that MDI-P had no effect on any of the following: bone marrow function, hematocrit levels in peripheral blood, serum levels for alanine aminotransferase levels and aspartate aminotransferase levels, both of which provide sensitive measures of hepatic toxicity, serum protein and albumin levels, bound urinary nitrogen levels, serum calcium levels or blood glucose levels. In addition, this genomics analysis provided confirmation that various measures of impact on the hundreds of genes controlling toxicity as well as the immuno-regulatory system were neither up-or-down regulated by MDI-P.

- In 2004 Dr. Chi also studied MDI-P as a potential therapeutic agent for the treatment of the symptoms of cystic fibrosis. In this study of 48 mice, it was found that MDI-P is a useful agent to reduce primary measures of disease in cystic fibrosis, including bacterial infection, mucus secretion, cellular infiltration, lung edema (swelling with excess fluid), lung hemorrhage, and lung infiltration by neutrophils and eosinophils, the principal white blood cells responding to allergic and infectious pathogens. Excessive presence of neutrophils and eosinophils can lead to cell death in surrounding tissues, causing serious health problems from their over-expression. No overt signs of toxicity were found in the primary organs (lungs, liver, spleen, kidneys, brain) of mice treated with MDI-P.

- In 2004 we conducted a chronic toxicity study of MDI-P. The study involved the weekly injection of MDI-P into the body cavity of test mice for six-months. No statistically relevant changes in body weight, or morphometry or histopathology of vital organs were observed, when compared with mice receiving saline control injections or with untreated animals. The study resulted in no dose-dependency and no toxic effects.

Application of MDI-P to HIV.

Overview. Our preclinical research has demonstrated that MDI-P is capable of rapidly killing HIV upon direct contact and preventing infection of cells in a cell culture. MDI-P has also shown it is capable of rapidly killing the HIV virus in an acutely infected cell line. Furthermore, the destruction of the HIV virus by MDI-P in a cell culture or a cell line does not require any additional combination of drugs, and appears to have a low toxicity profile in preclinical analysis. If these results can be replicated in human beings, under appropriate clinical protocols, this compound may represent a significant clinical advance over existing therapies.

Background of HIV/AIDS. HIV is a retrovirus whose genetic information is encoded by ribonucleic acid (RNA) instead of deoxyribonucleic acid (DNA). It spreads through the body by invading host cells and using the human cells' own protein synthesis process to replicate itself. As the virus replicates, it slowly destroys the immune system by infecting and killing T lymphocytes, so-called "T cells", which are critical for the function of the human immune system. The most recent estimates of the World Health Organization report that in 2003, between thirty-five and forty-two million people were infected with the HIV virus worldwide.

Existing Therapies for HIV. There are approximately 24 HIV therapies currently on the market and approved by the FDA with a market value in 2004 of approximately $6 billion per year and a projected annual growth rate of five and a half to six percent over the next ten years. The current U.S. market is valued in excess of $3 billion annually. The primary current therapies for HIV are anti-retroviral products falling into four categories: nucleoside reverse transcriptase inhibitors, non-nucleoside reverse transcriptase inhibitors, protease inhibitors, and anti-fusion of HIV-1 with CD4 cells (Fuzeon®, or enfuvirtide). These therapies are typically taken in combination under a protocol called Highly Active Antiretroviral Therapy (HAART). HAART is effective in controlling the levels of virus and in increasing the number of T cells. However, these combination therapies are also associated with significant toxicity and viral resistance. As a result, current therapy management is characterized by a set of complex issues: when to initiate therapy, what regimen to use, which drugs within each class to use, and when to change therapies. Due to limitations of chronic use of anti-retroviral drug therapies, guidelines issued by the National Institutes of Health suggest starting these therapies later in the disease. Therefore, a need exists for therapies that are useful early in the disease process, that are non-toxic, that are active against resistant strains and that do not give rise to rapid resistance. Even the new best-of-breed therapeutic, Fuzeon®, requires administration with other standard combination antiretroviral therapies, and exhibits a number of toxicities, including: injection site reactions in approximately 98% of patients treated, and on a less frequent basis, pneumonia, diarrhea, nausea, fatigue, fever, increased hepatic enzymes, neutropenia, thrombocytopenia, and renal failure.

Potential Benefits of MDI-P. MDI-P appears to have several important characteristics that could provide benefits to both patients and providers alike:

- MDI-P's mechanism of action is not accomplished by enzyme or nucleic acid inhibition, but rather by direct intra-cellular effects. In preliminary testing, MDI-P has been shown to be very rapid in effect and to destroy viruses without destroying host cells.
- MDI-P's broad-spectrum antiviral effects appear to make it active against even highly resistant viral strains and not subject to rapid resistance.
- The destruction of bacterial organisms by exposure to MDI-P does not appear to produce any potential harmful effects.
- MDI-P appears to have a low toxicity profile and therefore may be better tolerated by patients.

MDI's HIV Protocol. The HIV virus is known to have a cell replication cycle of approximately 10 days to two weeks. For this reason, the Phase I protocol designed by Dr. Bruce Dezube planned at Harvard Medical School will use daily infusions over fourteen-day infusion cycles of MDI-P, followed by a rest period, followed by subsequent two-week infusions. The selection of the appropriate human dosing regimen will be based upon the dose curve data currently being established at the University of Washington Medical School. The Harvard Phase I studies will be examining toxicity, together with early signs of efficacy in bringing HIV RNA cell copies in blood tests down to or below the 400 copies/mL level experienced by at least 34% of treatment-experienced patients in trials of the best of breed therapeutics in HIV (e.g. Fuzeon®).

In order to expedite MDI's IND for HIV, the Company may pursue an adjunct therapy program for its therapeutic, as in joint dosing with an approved HAART HIV therapeutic with MDI-P as an adjunct therapy to clinically manage the effects of fungal infections which frequently plague HIV patients. Specific preclinical studies in common fungi associated with HIV patients would be undertaken to support such a filing, together with the improved toxicity profile for MDI-P currently being established for the cystic fibrosis indication. Some of our toxicity work for cystic fibrosis (specifically, cardiovascular involvement in dogs and central nervous system involvement in mice) may need to be repeated via an infusion mode of delivery for HIV prior to filing an IND for HIV.

Application of MDI-P to Cystic Fibrosis.

Overview. Cystic fibrosis (CF) is a recessive genetic disease that manifests itself in multiple systems of the body. Individuals who suffer from CF produce excessive amounts of thick, sticky mucus that obstructs the airways of the CF patient. If mucus is not reduced in the CF patient, then respiratory failure can occur. Due to the fact that mucus serves as a medium for the growth of bacteria, the CF patient faces a high risk of morbidity and mortality due to frequent pulmonary infection. Currently, there are no FDA approved CF therapeutics that provide a statistically significant mucus-clearing effect. The prospective ability of MDI-P to remove CF patient mucus accumulation may, in fact, provide a significant extension of life for CF patients.

Background of Existing Therapies. With CF being a genetically-determined illness, there is presently no known "cure" for CF. Current treatment standards, which may entail 3-4 hours of treatment per day for the CF patient, include:

• Dietary control to lessen the build-up of fats, proteins (and to a lesser extent, carbohydrates) which can not be readily absorbed and metabolized. Typically, such dietary control is augmented with oral pancreatic enzymes to assist in fat metabolism.

• Treatment of bacterial infection with erythromycin, Tobramycin® (TOBI), and in severe infection cases, vancomycin to eradicate or control the infection. In some cases, daily use of oral antibiotics may be prescribed due to the high frequency of lung infection in CF patients and its risk of mortality.

• Frequent use of mucolytic agents such as N-acetylcysteine and bronchodilator therapy with Pulmozyme®. Clinical response may further indicate bronchial drainage through recombinant human Dnase or flutter devices to assist in mucus airway clearance, together with clapping of the chest to dislodge mucus. In extreme cases, broncho-alveolar lavage may be used, and if necessary, lung transplantation.

• Periodic corticosteroid tablets and inhaled anti-asthma medications (e.g., Advair®, Singulair®, etc.) to combat lung inflammation (frequently resulting from the presence of infection), together with high doses of ibuprofen for its anti-inflammatory effect.

• In addition, the CF patient may have insulin prescribed for CF-related diabetes, as well as medications for CF-associated liver disease, supplements of vitamins A and D, and medication to treat constipation. Oxygen therapy may also be prescribed.

At present, current therapies tend to be more effective in controlling pulmonary infection than in clearance of mucus. However, the increasing use of antibiotics to treat CF patients has lead to an increased number of CF patients with drug-resistant infection that can prove life-threatening. Since CF's build-up of mucus is genetically dependent, and the mucolytic agents and therapies limited in total mucus-clearing effect, the CF patient lives with a serious threat of respiratory failure from any of the various frequent pulmonary infections. Even with the use of all such therapies administered through approved CF disease centers, the common prognosis for life expectancy of a CF patient is currently 31-32 years.

Prospective Benefits of MDI-P. New anti-microbial therapies that would reduce continued mucus build-up would be beneficial to the CF patient to help prevent airway obstruction and frequent pulmonary infection. Should such new anti-microbial therapies also prove less susceptible to drug resistance, together with efficacy on viruses, their value in extending the quality of life and life span of CF patients would be substantial.

Based upon preliminary evidence from MDI's pre-clinical studies, we are hopeful that MDI-P may offer CF patients the following:

• to serve as a highly active anti-microbial agent for CF patients with bacterial pulmonary infection, as well as viral pulmonary infection, with low drug resistance probability; and

• to serve as the best-of-breed mucolytic agent in clearing the continuous mucus build-up in CF, when applied by nebulization into the lungs, as an adjunct therapy to TOBI.

The potential benefits of using MDI-P as an adjunct therapy to TOBI, based on preliminary data from our pre-clinical studies, are as follows:

• to avoid the possibility of significant clinical risk of adverse events with CF patients that a lengthy drug-clearance period might introduce if TOBI was discontinued and MDI-P used alone; and

• to lessen the likelihood of adverse events due to endotoxin reaction, due to the high level of activity MDI-P may exhibit in killing pathogens.

We are hopeful that MDI-P may, with CF patient compliance, significantly improve both pulmonary function and longevity of CF patients, due to its unique dual mechanism of action.

MDI's CF Protocols. MDI has established its planned Phase I CF trials at St. Luke's Regional Medical Center, Boise, Idaho), under the supervision of Dr. Henry Thompson, Principal Investigator, who is Director of the Idaho CF Clinic. The Phase I trial is planned on adult CF patients in the latter term of life expectancy (age 21+). There are two arms to the study:

• Arm I-a: a clinical trial will be conducted on a healthy normal adult population consisting of 10-15 individuals to establish the safety of MDI-P as a prospective adjunct therapy,

• Arm I-b: a clinical trial will be conducted on a TOBI-dependent adult CF population consisting of 30 individuals, in which MDI-P is used as an adjunct therapy during TOBI's 28-day rest period on a dose-rising regimen. Fifteen of the 30 patients will undergo each dose regimen, to determine if greater efficacy is achieved on the higher dose of MDI-P.

Nebulization of MDI-P through Pari Research Institute's new FDA-approved e-Flow device is planned. All patients will be hospitalized during the initial 24-hour start of nebulization, to allow monitoring for endotoxic reactions. Patients will then self-nebulize 3 times daily at home, and will come into the CF clinic for weekly physicals, blood tests, pulmonary function tests, and the like.

Other Indications for MDI-P. Our preclinical testing has also shown efficacy of MDI-P in treating sepsis and asthma. We have filed patent applications on those indications and may in the future pursue opportunities to commercialize MDI-P as a therapeutic for those indications.

SaveCream Overview. MDI purchased intellectual property assets from the liquidation estate of Savetherapeutics AG in March of 2005. The assets related to SaveCream, a novel, topical steroidal form of aromatase inhibitor (AI) indicated for breast cancer. Because it is applied topically, SaveCream may be shown to deliver substantially more therapeutic drug on the site of the breast tumor, as contrasted with systemic ingestion of competing AIs. If clinical research confirms the early evidence, SaveCream may be found to promote faster and greater breast tumor reduction with fewer side effects.

This promising cancer therapeutic product has been tested in the European Union under a unique German regulatory scheme that allows terminal patients to receive novel treatments. In the study, over 100 women diagnosed with Stage 4 breast cancer positive for the estrogen receptor received special permission to be treated with SaveCream. Patients in this preliminary study experienced an average reduction in tumor size of fifty percent with three weeks' treatment. If these preliminary results are realized in further clinical testing, this compound may be a useful neoadjuvant therapy for reducing tumor size to increase the potential for breast-saving surgery in place of mastectomy.

Background on the Breast Cancer Market. Breast cancer is one of the leading cancer indications, with an annual incidence in the U.S. of 211,000 new cases per year, with annual mortality of 40,000 per year. For the 25 percent of such breast cancers that are positive for human epidermal growth factor receptor-2, the standard treatment therapies are Herceptin®, followed by doxorubicin or epirubicin.

For the remaining two thirds of breast cancers which are positive for the estrogen receptor ("ER"), the leading therapies over the past several years have become the aromatase inhibitors ("AIs"), achieving $1.1 billion per year in revenues in 2004, with an estimated annual growth rate of 4%. The current three approved AIs on the U.S. market are: Novartis' Femara®, AstraZeneca's Arimidex®, and Pfizer's Aromatase® All are oral in dosage. Because of significantly improved efficacy and reduced toxicity as compared with the former leading first-line ER-positive therapy, Astra Zeneca's Tamoxifen, the AIs became the preferred first-line therapy for most breast cancers in the fall of 2004.

Background on Aromatase Inhibitors. An aromatase inhibitor is an anti-estrogen therapy, blocking estrogen's ability to activate cancer cells. Aromatase is the enzyme that converts other naturally occurring hormones (such as androgen) into estrogen. The way aromatase inhibitors work is to limit the production of estrogen by blocking its catalysis from other hormones. Approximately 70% of women test positive for estrogen receptors (ER) or progesterone receptors (PR) to which estrogen can dock, activating cancer cells. For this 70% ER/PR positive patient grouping, the results of anti-estrogen therapy through AIs is strongest.

Aromatase inhibitors represent a preferred approach to anti-estrogen therapy by lowering the amount of estrogen being produced by the body. This method contrasts with that of Tamoxifen and related therapies, which block estrogen's ability to "turn on" cancer cells. Limiting the amount of estrogen produced means there is less estrogen available to reach cancer cells and make them grow.

In post-menopausal women, estrogen is no longer produced by the ovaries, but is converted from androgen, another hormone. Aromatase inhibitors keep androgen from being converted to estrogen. That means less estrogen in the bloodstream, and less estrogen reaching estrogen receptors to trigger a breast tumor.

In about 70-80% of breast cancer cases, the cancer cells have areas on their surface called receptors to which hormones such as estrogen and progesterone attach, providing fuel for the cells' growth into a tumor. Tamoxifen® and AIs both interfere with cancer cells' use of hormones to help them grow, but the drugs work in different ways. Tamoxifen® interferes directly with cancer cells' ability to use estrogen for fuel. AIs block the action of a substance called aromatase, which helps the body to produce estrogen.

Testing at the time breast cancer is diagnosed can determine whether the cancer cells are sensitive to estrogen or progesterone. Neither Tamoxifen® nor AIs are effective in treating breast cancer that is not hormone sensitive, that is, cancer that does not use hormones to help the tumor grow.

Following reduction in tumor size by AI treatment, current treatment regimens usually proscribe surgery to remove the tumor(s), which if tumor size reduction has been substantial, may obviate the need for a mastectomy.

Potential Benefits of SaveCream in Treating ER-Positive Breast Cancers. SaveT has formulated its AI therapeutic in a topical steroidal cream (SaveCream), applied twice daily, unlike the current AI oral formulations. By local administration on the breast, SaveCream may affect a stronger down-regulation of estrogen in the local breast tissue — now believed to be key to reduction in ER-positive breast tumors — as contrasted with oral forms, which are constrained to systemic blood levels of active product under recommended dosing.

In our preliminary European Union studies of SaveCream, we observed an average fifty to eighty percent reduction in breast tumor size within two weeks of treatment. If these preliminary results are realized in further clinical testing, this compound may be a useful neoadjuvant therapy for reducing tumor size, increasing the potential for breast-saving surgery in place of mastectomy.

SaveCream was well tolerated in our limited clinical studies, suggesting that it may offer a lower incidence of toxicities that are less severe than those reported for oral aromatase inhibitors. The limited half-life of the active product suggests that SaveCream may be shown to have an improved side effect profile over existing oral formulations. If it is demonstrated by further clinical testing, this favorable therapeutic index (efficacy/toxicity ratio) should make the therapeutic amenable to registration with a paper NDA, thereby making the product easier to license. Other AIs are noted for musculoskeletal complaints and increased risk of osteoporosis and bone fracture, together with mastalagia. In our initial, limited clinical experience with SaveCream, these common side-effects of other AIs were not observed.

SaveCream's unique mechanism of action suggests the product may be shown to be useful intreating:

• pre-menopausal breast cancer patients, thereby expanding the targeted breast cancer indication substantially;

• other cancer indications, including ovarian, uterine, endometrial and skin cancers; and

• osteoporosis, effectively turning the therapeutic into a technology platform for drug development.

MDI's Commercialization Program for SaveCream. MDI believes that the existing chemistry, manufacturing and control (CMC) data supporting SaveCream will be sufficient, however additional preclinical data will need to be obtained, including toxicology and pharmacokinetic testing. While the Company plans to undertake a program to expand SaveCream's preclinical data and expand the clinical trial program, including revised protocols, additional funds will need to be raised before this work can proceed. The preclinical testing will likely take an additional three to six months once it has begun, and expanded clinical trials will likely take an additional year of work.

Patents: MDI-P and Related Technologies. We hold eight United States Patents, two Japanese patents and a Mexican patent covering various applications for MDI-P, the machinery that manufactures it and the method by which it is manufactured. We believe that these patents, in combination with our pending applications for patents covering additional uses of MDI-P are sufficient to protect our proposed indications for use, however additional patents may be sought if we pursue additional uses for this product. The U.S. Patents are as follows:

- Patent No. 5,334,383: "Electrically Hydrolyzed Salines as In Vivo Microbicides for the Treatment of Cardiomyopathy and Multiple Sclerosis"

  This patent covers a method of treating antigen related infections related to cardiomyopathy and multiple sclerosis in humans and other warm blooded animals. It does not cover the MDI-P Substance itself, but covers a particular use of the substance. This method of treatment includes the use of an electrolyzed saline solution in conjunction with one or more modulating agents such as ascorbic acid (Vitamin C), with or without concurrent colchicine, to mimic or enhance the body's naturally occurring immune response to bacterial, viral or fungal infection. The duration of this patent is until August 2, 2011, subject to patent term extension for clinical trial time.

- Patent No. 5,507,932: "Apparatus for Electrolyzing Fluids"

  This patent covers equipment that exposes a liquid solution to an electrical current, creating an electrolyzed solution. This equipment may be used to produce an electrolyzed saline solution, capable of killing bacterial, viral and fungal agents, for use in medical applications such as the treatment of antigen related infections in humans and other warm blooded animals. This patent covers the equipment used to produce MDI-P, not the substance itself. The duration of this patent is until August 26, 2014.

- Patent No. 5,560,816: "Method for Electrolyzing Fluids"

  This patent covers a method for electrolyzing fluids, by using specialized equipment to expose liquid solutions to an electrical current. Saline, for example, may be treated by this process to yield an electrolyzed saline solution, capable of killing bacterial, viral and fungal agents, for the treatment of antigen related infection in humans and other warm blooded animals. This patent covers the method by which MDI-P is produced, not the substance itself. The duration of this patent is until August 26, 2014, subject to patent term extension for clinical trial time.

- Patent No. 5,622,848: “Electrically Hydrolyzed Saline Solution as Microbicides for In Vitro Treatment of Contaminated Fluids Containing Blood”

  This patent covers a method of treating whole blood and other blood products with an electrolyzed saline solution to reduce infection with bacterial, viral and fungal agents. This patent covers a particular use of MDI-P, not substance itself. The duration of this patent is until April 22, 2014, subject to patent term extension for clinical trial time.

- Patent No. 5,674,537: “An Electrolyzed Saline Solution Containing Concentrated Amount of Ozone and Chlorine Species”

  This patent covers a specific electrolyzed saline solution containing a regulated amount of microbicidal agents including ozone and active chlorine species. This solution is intended for use in the treatment of infections in the body of humans and other warm blooded animals, or in blood or blood products. This patent covers the MDI-P substance. The duration of this patent is until October 7, 2014, subject to patent term extension for clinical trial time.

- Patent No. 5,731,008: “Electrically Hydrolyzed Salines as Microbicides”

  This patent covers a method of using a specific electrolyzed saline solution containing a regulated amount of microbicidal agents including ozone and active chlorine species for the treatment of microbial infections, including HIV infection. The method includes intravenous administration of the solution along with one or more modulating agents such ascorbic acid (Vitamin C), with or without concurrent colchicine. This patent covers a method for using MDI-P, not the substance itself. The duration of this patent is until May 23, 2010, subject to patent term extension for clinical trial time.

- Patent No. 6,007,686: “System for Electrolyzing Fluids for Use as Antimicrobial Agents”

  This patent covers a system for electrolyzing fluids, such as a saline solution, for use in sterilizing dental and medical instruments and other health care equipment. The patent covers the necessary equipment for generating and circulating the electrolyzed saline solution around the instruments to be sterilized, and includes specific claims for equipment designed for use with dental drill handpieces and flexible tubing. This patent covers a process by which MDI-P may be made for a particular use, not the substance itself. The duration of this patent is until August 26, 2014.

- Patent No. 6,117,285: “System for Carrying Out Sterilization of Equipment”

  This patent covers a system for cleaning and sterilizing medical and dental instruments to prevent the spread of infection from one patient to another. The covered system bathes the instrument in an electrolyzed saline solution and causes the solution to flow into and sterilize any openings in the equipment. It includes specific claims for systems designed specifically for the sterilization of dental drills and flexible tubing. This patent covers a particular use of MDI-P, not the substance itself. The duration of this patent is until August 26, 2014.

The Japanese and Mexican patents provide coverage in those countries for various of the U.S. patents. We also have pending applications with the US Patent and Trademark Office for patents on MDI-P as a pharmaceutical treatment for cystic fibrosis, sepsis and asthma. These include:

- A patent application for the use of MDI-P in the treatment of sepsis. This patent, if it is ultimately granted, would cover a particular use of the MDI-P substance, not the substance itself.

- A provisional patent application for the use of MDI-P in the treatment of sepsis. A provisional patent application is an abbreviated application intended to establish a priority filing date for this technology. A full patent application will be required before this patent application is reviewed by the U.S. Patent and Trademark Office. This patent, if it is ultimately granted, would cover a particular use of the MDI-P substance, not the substance itself.

- A provisional patent application for the use of MDI-P in the treatment of asthma. A provisional patent application is an abbreviated application intended to establish a priority filing date for this technology. A full patent application will be required before this patent application is reviewed by the U.S. Patent and Trademark Office. This patent, if it is ultimately granted, would cover a particular use of the MDI-P substance, not the substance itself.

As existing patents and pending patent applications are method patents covering the use of MDI-P for particular indications, we believe they are adequate to protect the proposed indications for use.

Patents: SaveCream and Related Technologies. The intellectual property assets we purchased from the liquidation estate of Savetherapeutics A.G. include the following four patent families:

- "Substances and Agents for Positively Influencing Collagen." This also includes an EU patent application and a Canadian patent. This patent covers the use of a substance such as an aromatase inhibitor to inhibit the local formation of estrogen to stabilize, multiply and/or restore collagen in the skin for cosmetic purposes. It does not cover the SaveCream substance itself.

- "Topical Treatment for Mastalgia." This includes U.S. patent application 10/416,096 filed October 30, 2001. A European Union patent application has been filed as well. This patent application seeks to cover a substance containing an aromatase inhibitor for topical administration for medicinal treatment, including prevention and treatment of mastalgia.

- "Medicament for Preventing and/or Treating a Mammary Carcinoma Containing a Steroidal Aromatase Inhibitor." This includes a U.S. patent application, No. 09/646,355, filed November 16, 2000 and divisional and continuation applications based upon the initial application. These applications seek to cover a method or prevention or treatment of breast cancer involving the local, topical application of an aromatase inhibitor. These applications seek to cover a particular use of the SaveCream substance, not the substance itself.

- "Aromatase Marking." This includes a U.S. Patent application, No. 10/487,953, filed August 28, 2002, as well as a European Union patent application. These patents seek to cover a group of compounds that exhibit an inhibitory action toward the enzyme aromatase, permitting them to be used for the medical diagnosis and treatment of tumor diseases including breast cancer.

We believe that these patents, if granted, will sufficiently protect our proposed indications for use. We may, however, seek, additional patents to cover new uses of SaveCream that may be discovered during the product's development.

We are in the process of transferring the patents and applications to MDI's subsidiary. At the time we purchased SaveCream and the other intellectual property assets from SaveT, SaveT had not yet obtained and filed with the appropriate patent offices assignments of the various inventors' rights to the underlying inventions. Each of those inventors has agreed and is contractually bound to assign such rights. We are currently in the process of securing the applicable assignments. However, we may need to initiate litigation against the inventors to secure such assignments.

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

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

Government Regulations. Our use of MDI-P and SaveCream as pharmaceuticals is subject to extensive regulation by United States and foreign governmental authorities. In particular, pharmaceutical treatments are subject to rigorous preclinical and clinical testing and other approval requirements by the FDA in the United States under the federal Food, Drug and Cosmetic Act and by comparable agencies in most foreign countries. Various federal, state and foreign statutes also govern or influence the manufacture, labeling, storage, record keeping, and marketing of such products. Pharmaceutical manufacturing facilities are also regulated by state, local, and other authorities. Obtaining approval from the FDA and other regulatory authorities for a new drug or treatment may take several years and involve substantial expenditures. Moreover, ongoing compliance with these requirements can require the expenditure of substantial resources. Difficulties or unanticipated costs may be encountered by us in our efforts to secure necessary governmental approvals, which could delay or preclude us from marketing MDI-P or SaveCream.

The FDA imposes substantial requirements upon and conditions precedent to the introduction of therapeutic drug products, such as MDI-P or SaveCream, through lengthy and detailed laboratory and clinical testing procedures, sampling activities and other costly and time consuming procedures to demonstrate that such products are both safe and effective in treating the indications for which approval is sought. After testing in animals, an Investigational New Drug, or IND, application must be filed with the FDA to obtain authorization for human testing. When the clinical testing has been completed and analyzed, final manufacturing processes and procedures are in place, and certain other required information is available to the manufacturer, a manufacturer may submit a new drug application, or NDA, to the FDA. No action can be taken to market any therapeutic drug product in the United States until an NDA has been approved by the FDA.

The IND process in the United States is governed by regulations established by the FDA which strictly control the use and distribution of investigational drugs in the United States. The guidelines require that an application contain sufficient information to justify administering the drug to humans, that the application include relevant information on the chemistry, pharmacology and toxicology of the drug derived from chemical, laboratory and animal or *in vitro* testing, and that a protocol be provided for the initial study of the new drug to be conducted on humans.

In order to conduct a clinical trial of a new drug in humans, a sponsor must prepare and submit to the FDA a comprehensive IND. The focal point of the IND is a description of the overall plan for investigating the drug product and a comprehensive protocol for each planned study. The plan is carried out in three phases: Phase I clinical trials, which involve the administration of the drug to a small number of healthy subjects to determine safety, tolerance, absorption and metabolism characteristics; Phase II clinical trials, which involve the administration of the drug to a limited number of patients for a specific disease to determine dose response, efficacy and safety; and Phase III clinical trials, which involve the study of the drug to gain confirmatory evidence of efficacy and safety from a wide base of investigators and patients.

Phase I testing typically takes at least one year, Phase II trials typically take from 1-1/2 to 2-1/2 years, and Phase III trials generally take from 2 to 5 years to complete. Should the FDA grant “fast-track” status to MDI-P based upon its safety profile and early signs of efficacy in Phase I clinical trials, the overall timeline for completion of Phase II-III clinical trials can be compacted to as little as 2-3 years. We can give no assurance that Phase I, Phase II or Phase III testing for MDI-P or SaveCream will be completed successfully within any specified time period, if at all. While we are hopeful that “fast-track” status might be provided MDI-P, there is no assurance that such status will, in fact, be provided. Furthermore, the FDA may suspend clinical trials at any time if the patients are believed to be exposed to a significant health risk.

An investigator’s brochure must be included in the IND and the IND must commit the sponsor to obtain initial and continual review and approval of the clinical investigation. A section describing the composition, manufacture and control of the drug substance and the drug product is included in the IND. Sufficient information is required to be submitted to assure the proper identification, quality, purity and strength of the investigational drug. A description of the drug substance, including its physical, chemical, and biological characteristics, must also be included in the IND. The general method of preparation of the drug substance must be included. A list of all components including inactive ingredients must also be submitted. There must be adequate information about pharmacological and toxicological studies of the drug involving laboratory animals and *in vitro* tests on the basis of which the sponsor has concluded that it is reasonably safe to conduct the proposed clinical investigation. Where there has been widespread use of the drug outside of the United States or otherwise, it is possible in some limited circumstances to use well documented clinical experience as a substitute for other pre-clinical work.

The FDA typically takes several months to consider and act on an IND application. We can give no assurance that our IND application will be approved or, if approved following comments or subject to modifications, the length of FDA approval time.

After the FDA approves the IND, the investigation is permitted to proceed, during which the sponsor must keep the FDA informed of new studies, including animal studies, make progress reports on the study or studies covered by the IND, and also be responsible for alerting FDA and clinical investigators immediately of unforeseen serious side effects or injuries.

When all clinical testing has been completed and analyzed, final manufacturing processes and procedures are in place, and certain other required information is available to the manufacturer, a manufacturer may submit an NDA to the FDA. An NDA must be approved by the FDA covering the drug before its manufacturer can commence commercial distribution of the drug. The NDA contains a section describing the clinical investigations of the drug which section includes, among other things, the following: a description and analysis of each clinical pharmacology study of the drug; a description and analysis of each controlled clinical study pertinent to a proposed use of the drug; a description of each uncontrolled clinical study including a summary of the results and a brief statement explaining why the study is classified as uncontrolled; and a description and analysis of any other data or information relevant to an evaluation of the safety and effectiveness of the drug product obtained or otherwise received by the applicant from any source foreign or domestic. The NDA also includes an integrated summary of all available information about the safety of the drug product including pertinent animal and other laboratory data, demonstrated or potential adverse effects of the drug, including clinically significant potential adverse effects of administration of the drug contemporaneously with the administration of other drugs and other related drugs. A section is included describing the statistical controlled clinical study and the documentation and supporting statistical analysis used in evaluating the controlled clinical studies.

Another section of the NDA describes the data concerning the action of a drug in the human body over a period of time and data concerning the extent of drug absorption in the human body or information supporting a waiver of the submission of such data. Also included in the NDA is a section describing the composition, manufacture and specification of the drug substance including the following: a full description of the drug substance, its physical and chemical characteristics; its stability; the process controls used during manufacture and packaging; and such specifications and analytical methods as are necessary to assure the identity, strength, quality and purity of the drug substance as well as the availability of the drug products made from the substance. NDAs contain lists of all components used in the manufacture of the drug product and a statement of the specifications and analytical methods for each component. Also included are studies of the toxicological actions of the drug as they relate to the drug's intended uses.

The data in the NDA must establish that the drug has been shown to be safe for use under its proposed labeling conditions and that there is substantial evidence that the drug is effective for its proposed use(s). Substantial evidence is defined by statute and FDA regulation to mean evidence consisting of adequate and well-controlled investigations, including clinical investigations by experts qualified by scientific training and experience, to evaluate the effectiveness of the drug involved. We can give no assurance that even if we complete clinical testing that our NDA will be approved.

Raw Materials. The components of both MDI-P and SaveCream are readily available from a number of sources. Therefore, once we are in the production stage with respect to these drugs, we do not anticipate raw materials acquisition difficulties or supplier identification or relations problems.

Research and Development Expenditures. Our research and development efforts to date have consisted primarily of pre-clinical development of and preparing applications for regulatory approvals for MDI-P for our initial target indications, HIV and cystic fibrosis. Our research and development is accomplished by outside scientific researchers under the coordination of Craig Palmer, Ph.D. During the fiscal year ended December 31, 2004, we spent $550,093 on research and development of MDI-P. During fiscal year 2003, we spent $100,423 on research and development. From inception through June 30, 2005, we have recorded $5,219,244 in research and development expenses including expenditures relating to the purchase of the SaveCream intellectual property. We are actively pursuing our research efforts of MDI-P and are in the process of establishing a commercialization plan for SaveCream.

Employees. We currently have two employees, our President and CEO, Judy M. Robinett, and our controller. We have engagements with a number of consultants for communications, investor relations, website development, accounting and other services. Over the past several years, our priority has been the advancement of our therapeutic technology through preclinical development and all capital resources have been devoted in that direction. At such time as capital resources permit, we will hire a full-time staff of employees.

Scientific Advisory Board. We have a scientific advisory board consisting of the following individuals:

Bruce I. Dezube, M.D.
Director of AIDS Oncology, Beth Israel Deaconess Medical Center, Boston
Associate Professor of Medicine, Harvard Medical School
We retained Dr. Dezube to oversee medical testing, FDA protocol alignment and approvals planning for MDI-P. Dr. Dezube will be the principal investigator for our IND in HIV. Dr. Dezube is a member of the AIDS Clinical Trial Group (ACTG) where he is principal investigator in more than seven studies involving the testing and evaluation of interferon and newer anti-HIV agents. Additionally, Dr. Dezube has been involved in industry-sponsored studies of other anti-HIV agents, assisting with required FDA approvals. Dr. Dezube received his M.A. from Harvard University and his M.D. from Tufts University. Dr. Dezube was a research fellow in hematology and oncology and is board certified in internal medicine, hematology, and oncology.

Robert A. Mastico, Ph.D.
Physical Chemist, Independent Consultant
Dr. Mastico specializes in the chemistry, manufacturing and control of new drug substances required for FDA approval. He has experience submitting INDs to the FDA, handling the manufacturing and analytical data (CMC section) for investigational therapeutics. We have retained Dr. Mastico to determine the chemical characterization requirements for MDI-P, and for planning and compliance with all FDA and other required certifications involving chemical analyses. Dr. Mastico received his Ph.D. from the University of Leeds in genetic biochemistry and has fifteen years experience in the fields of biotherapeutics and pharmaceutical production.

Craig R. Palmer, Ph.D.
Principal, Palmer Consulting Group
Dr. Palmer has served over the past twenty years as a strategic financial advisor to a wide variety of technology platform and biotech companies in their capital formation, management and product licensing arenas. We have retained Dr. Palmer to assist us in managing the pre-clinical and clinical development of MDI-P as well as commercialization. He serves as a director on several biotech and biomedical companies, and has successfully licensed major ethical drugs and biomedical devices. Prior to his involvement as a Principal in Palmer Capital Group LLC, and its predecessor The Palmer Group, he served as a manager and principal in the consulting operations of Ernst & Young (10 years), followed by a brief stint as a VP of Investments for a regional bank and its SBIC. Dr. Palmer has assisted a number of his clients in securing underwriters for their IPOs or secondary offerings. He has also assisted several clients in establishing major strategic partnerships for product development. Dr. Palmer received his Ph.D. from the University of Washington.

Dr. Henry R. Thompson, M.D.
Director, Cystic Fibrosis Program Therapeutics Center, St. Luke's Health Center, Boise, Idaho

On September 23, 2004, Dr. Thompson agreed to serve as Project Manager and Principal Investigator for MDI's Phase I trials in late-term adult Cystic Fibrosis (CF) patients. Dr. Thompson is a gastroentologist, and received his M.D. from Oregon Health Sciences University. He held a Fellowship in pediatric gastroenterology at Children's Hospital in Denver, at the University of Colorado Health Science's unit, where he also participated in clinical studies. Dr. Thompson has been an Assistant Professor at the University of Utah's Medical School, and is a Board certified Fellow in the American Association of Pediatrics. He has previously received grants from both the Cystic Fibrosis Foundation and the NIH.

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

On July 6, 1998, we incorporated a wholly-owned subsidiary, Regenere, Inc., in the State of Nevada. On October 2, 1998, we incorporated another wholly-owned subsidiary, MDI Healthcare Systems, Inc., in the State of Nevada. Both subsidiaries were incorporated to undertake special purposes, neither of which were pursued by us in recent years. As of December 31, 2003, we dissolved those subsidiaries.

On March 22, 2005, we formed MDI Oncology, Inc., a Delaware corporation, as a wholly-owned subsidiary to acquire certain intellectual property assets from the liquidation estate of Savetherapeutics, A.G.

Reports to Security Holders. We have filed with the Securities and Exchange Commission, a Registration Statement on Form SB-2 under the Securities Act of 1933 with respect to the common stock offered by this prospectus. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules to the registration statement. For further information with respect to us and the common stock offered by this prospectus, reference is made to the registration statement and the exhibits and schedules filed as a part of the registration statement. Additionally, we file annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission. You may read and copy any materials we file with the Securities and Exchange Commission at the Securities and Exchange Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission also maintains a World Wide Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission. The address of the Securities and Exchange Commission's Web site is http://www.sec.gov. You may also find more information about us, and any recent developments at our Web site at http://medicaldiscoveries.com.

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

The purpose of this section is to discuss and analyze our 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 F-1 through F-25.

This section contains certain forward-looking statements that involve risks and uncertainties, including statements regarding our plans, objectives, goals, strategies and financial performance. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of factors set forth under "Forward-Looking Statements above and elsewhere in this prospectus.

Results of Operations

Three months ended June 30, 2005 compared to three month ended June 30, 2004 and Six Months ended June 30, 2005 compared to Six Months ended June 30, 2004.

Revenues and Gross Profit — We did not book any revenue for the three or six-month periods ended June 30, 2005 or June 30, 2004. As we continue to pursue pre-clinical and clinical testing of our pharmaceuticals, we may not book significant revenues in the near future.

Operating Expenses and Operating Loss — We incurred $118,520 in research and development expenses for the quarter ended June 30, 2005. We incurred $132,335 in research and development expenses for the same period of 2004. Our general and administrative expenses were $636,325 during the quarter ended June 30, 2005, as compared to $369,270 during the quarter ended June 30, 2004. As a result of the foregoing, we sustained an operating loss of $754,845 for the quarter ended June 30, 2005, as compared with an operating loss of $501,605 for the period of 2004.

For the six months ended June 30, 2005 we incurred $1,670,506 in research and development expenses, $1,345,000 of which related to our acquiring the patents and patent rights relating to SaveCream. We incurred $170,978 in research and development expenses for the same period of 2004. Our general and administrative expenses were $888,321 during the first six months of 2005, as compared to $2,416,963 during the six-month period ended June 30, 2004, resulting in operating losses of $2,558,827 through June 30, 2005 and $2,587,941 for the same period of 2004.

Other Income/Expense and Net Loss — We booked $9,346 in interest income and incurred interest expenses of $7,237 for the quarter ended June 30, 2005, as compared with interest income of $1,426 and $33,048 in interest expenses for the same period of 2004. The decrease in interest expense is a result of our successful efforts to convert high-interest debt to equity. We also recorded $196,353 as Gain of Forgiveness of Debt during the quarter ended June 30, 2005, which resulted from a negotiated settlement of certain notes payable. In sum, our net loss applicable to common shareholders for the second quarter of 2005 was $515,483 or a loss of less than $0.01 per fully diluted share. For the quarter ended June 30, 2004 we incurred a net loss applicable to common shareholders of $532,507, making a loss of $0.01 per fully diluted share.

For the six months ended June 30, 2005, we booked $14,910 in interest income and incurred interest expense of $23,135, as compared with $3,126 of interest income and $86,724 of interest expense for the comparable period of 2004. In addition, we recognized a preferred stock dividend of $1,264,409 during the first six months as a result of the beneficial conversion feature of the preferred shares issued during the period. There was no such dividend recognized during the first half of 2004. Our net loss applicable to common shareholders for the first half of 2005 was $3,574,308 or $0.03 per fully diluted share. Our net loss for the first half of 2004 was $2,670,819 or $0.03 per fully diluted share.

Year ended December 31, 2004 compared to year ended December 31, 2003.

Revenues and Gross Profit. We booked no revenues for the year ended December 31, 2004 or for the prior year ended December 31, 2003. As we continue to pursue pre-clinical and clinical testing of our pharmaceuticals, we do not anticipate booking significant revenues in the near future.

Operating Expenses and Operating Loss. We booked $550,093 in research and development expenses during the year ended December 31, 2004, as compared with $100,423 in such expenses for the same period in 2003. Our increased research and development activity reflects our success is raising capital to fund pre-clinical studies of MDI-P. We have continued to be successful in raising capital in 2005 and will likely incur substantially higher research and development expenses during 2005. Our general and administrative expenses were $3,057,429 in 2004, as compared with $1,206,484 during the year ended December 31, 2003. Of that amount, we recorded non-cash charges of $1,741,501 for stock and stock options issued for services, expenses and interest. As a result of the foregoing, we sustained an operating loss of $3,607,522 for the year ended December 31, 2004, as compared with a loss of $1,306,907 for the same period of 2003.

Other Income/Expense and Net Loss. We recorded other income during 2004 in the amount of $1,408. During 2003, we recorded $611,558 in other income, $610,828 of which was on account of writing off certain liabilities from our balance sheet. We incurred interest expenses of $131,526 in 2004, as compared with $256,694 in such expenses in 2003. Our interest expenses have decreased as we have paid down or converted to equity relatively short-term, high-interest debt incurred in past periods in order to finance operations, research and development. We also recorded $6,165 in interest income in 2004. In sum, our net loss available to common stockholders for 2004 was $4,423,674, or a loss of approximately $0.05 per fully diluted share. In 2003, we sustained a net loss of $952,043, or a loss of approximately $0.02 per fully diluted share.

Future Expectations — We expect to operate at a loss for several more years while we continue to research, gain regulatory approval of, and commercialize our technologies. We will spend more in the remainder of the 2005 fiscal year in research and development expenses than we did over the prior year as we continue to implement our commercialization strategy. Similarly, we expect our general and administrative expenses to continue to increase for the remainder of 2005 as we continue to expand the scope of our operations. As a result, we expect to sustain a greater net loss in 2005 than we have in recent years.

Liquidity and Capital Resources

As of June 30, 2005, we had $2,424,197 in cash and had a working capital deficit of $1,212,906 Since our inception, we have financed our operations primarily through private sales of equity and the issuance of convertible and non-convertible notes. We continue to require significant supplementary funding to continue to develop, research, and seek regulatory approval of our technologies. We do not currently generate any cash from operations and have no credit facilities in place or available. Currently, we are funding operations through private issuances of equity.

During the six months ended June 30, 2005, we issued 30,000 shares of our Series A Preferred Stock to an unrelated third-party in exchange for $3 million in cash, less offering costs of $340,000. We intend to use this cash for additional research and development, including making the second installment on our purchase of the SaveCream assets.

We are seeking to raise substantial additional funds in private stock offerings in order to meet our near-term and mid-term funding requirements. While we are optimistic that we can raise such funds, we cannot provide positive assurances that we will be successful in our efforts. Given that we are still in an early development stage and do not have revenues from operations, raising equity financing can, at times, be difficult. In addition, any additional equity financing will have a substantial dilutive effect to our current shareholders.

We believe we have sufficient capital on hand from our first quarter issuance of Series A Preferred Stock to complete Phase I clinical trials of MDI-P for cystic fibrosis once the FDA approves our IND, as well as the additional preclinical testing requested by the FDA before it will approve our IND. Fixed price contracts have been executed for each of the planned preclinical and Phase I tests. Should the FDA request further preclinical testing beyond our current expectations, we will need to expend additional funds beyond what is budgeted for our MDI-P development activities. This could impact our ability to commercialize this product.

We believe we have in-sufficient capital to file our IND for HIV. Once an IND application for HIV is submitted, and assuming it is approved, we also will need additional capital to initiate Phase I clinical trials. We estimate the cost to complete Phase I and Phase II clinical trials to be several million dollars per indication and the cost to complete Phase III testing and obtain approval of an NDA to be in the tens of millions of dollars per indication. While our ability to obtain financing may improve in the event our IND application is approved, we cannot give assurances that we will have access to the significant capital required to take a drug through regulatory approvals and to market. We may seek a partner in the global pharmaceutical industry to help us co-develop, license, or even purchase some or all of our technologies.

Off-Balance Sheet Arrangements. We have no off-balance sheet arrangements as defined in Item 303(c) of Regulation S-B.

Foreign Currency Risk. We bear foreign currency exchange risk because our remaining purchase price obligation for the Savetherapeutic assets is stated in Euros.

DESCRIPTION OF PROPERTY

We do not currently own or lease any real property. Currently, we operate out of the President and CEO's home office. We do not pay any rent to the President and CEO. Over the past several years, our priority has been the advancement of our therapeutic technology through pre-clinical development and all capital resources have been devoted in that direction. At such time as capital resources permit, we will lease dedicated office and laboratory space.

RELATED PARTY TRANSACTIONS

At June 30, 2005 we had accounts payable to our President and CEO totaling $877,635.99 for services performed on behalf of the Company. Also at June 30, 2005, we had an account payable to our bookkeeper of $73,000. These accounts payable represent accrued compensation for the period June 2000 through June 2005. The executed employment agreement between the Company and our President and CEO is attached as Exhibit 10.4.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information. Our common stock is traded on the NASD OTC Bulletin Board under the symbol "MLSC." The following table sets forth the range of bid quotations for our common stock for the quarters indicated according to data provided by The NASDAQ Stock Market, Inc. Such quotations reflect inter-dealer prices, without retail mark-ups, markdowns or commissions, and may not represent actual transactions.

FISCAL YEAR ENDED DECEMBER 31, 2005	HIGH BID	LOW BID
First Quarter	$ 0.220	$ 0.130
Second Quarter	0.180	0.080
Third Quarter	0.170	0.082

FISCAL YEAR ENDED DECEMBER 31, 2004	HIGH BID	LOW BID
First Quarter	$ 0.170	$ 0.100
Second Quarter	0.300	0.115
Third Quarter	0.301	0.150
Fourth Quarter	0.260	0.180

FISCAL YEAR ENDED DECEMBER 31, 2003	HIGH BID	LOW BID
First Quarter	$ 0.085	$ 0.035
Second Quarter	0.090	0.055
Third Quarter	0.075	0.045
Fourth Quarter	0.395	0.060

Shareholders. The approximate number of shareholders of record of our common stock as of October 12, 2005 was 1,472. This number does not include shareholders whose shares are held in securities position listings.

Dividends. We have never paid any cash dividends on our common stock and do not anticipate paying dividends in the foreseeable future. We presently intend to retain any future earnings for financing our growth and expansion.

Securities Authorized for Issuance Under Equity Compensation Plans. The following table contains information regarding our equity compensation plans as of June 30, 2005.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders			
1993 Incentive Plan	3,483,000	$ 0.14	-0-
2002 Stock Incentive Plan	16,000,000	$ 0.02	4,000,000
Equity compensation plans not approved by security holders	—	—	—
Total	19,483,000	$ 0.04	4,000,000

EXECUTIVE COMPENSATION

Director Compensation. Directors who are not officers of the Company do not receive any regular compensation for their service on the board of directors, and directors who are officers of the Company receive no additional compensation for their service as a director of the Company. Directors are entitled to receive compensation for services unrelated to their service as a director to the extent that they provide such unrelated services to the Company. See "Related Party Transactions" above.

Directors of the Company and its subsidiaries are entitled to participate in our 2002 Stock Incentive Plan. During the year ended December 31, 2004, we did not grant any options to directors.

Summary Compensation Table. The following table sets forth certain summary information concerning compensation paid by the Company to the President and Chief Executive Officer (the "Named Executive Officer") for the years ended December 31, 2004, 2003, and 2002. No other executive officer of the Company received a total annual salary and bonus in excess of $100,000 during the year ended December 31, 2004. As of April 1, 2005, we increased Ms. Robinett's salary to $350,000 per year pursuant to a new employment agreement.

Name and Principal Position(s)	Year	Salary ($)(a)	Bonus ($)	Securities Underlying Options (#)
Judy M. Robinett	2004	220,000	—	—
President and Chief	2003	220,000	—	14,500,000
Executive Officer	2002	193,336	300,000	500,000

(a) Represents total amounts accrued for the period, whether or not actually paid. As of December 31, 2004, the Company had a total payable to Ms. Robinett of $902,636. During the year ended December 31, 2004, Ms. Robinett was actually paid $101,500 by the Company.

The Named Executive Officer was not granted options during the year ended December 31, 2004.

The following table sets forth certain summary information concerning options exercised by the Named Executive Officer during 2004, and the value of options held by such person at December 31, 2004 measured in terms of the average sale price reported for Common Stock on December 31, 2004 ($.20, as reported by OTC Bulletin Board).

Aggregate Option Exercises in 2004 and Option Values at 12/31/2004

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at December 31, 2004 (#) Exercisable/Unexercisable	Value of Unexercised In-the-Money Options at December 31, 2004 ($) Exercisable/Unexercisable
Judy M. Robinett	—	—	16,000,000/0	3,200,000

The Company has never granted any freestanding stock appreciation rights.

EXPERTS

Our financial statements included in this prospectus as of December 31, 2004 and 2003 and for each of the two years then ended and for the period from inception (November 20, 1991) through December 31, 2004 have been audited by Hansen Barnett and Maxwell; and Eide Bailly LLP (formerly Balukoff Lindstrom & Co., P.A. — joined Eide Bailly November 1, 2004); as stated in their reports appearing elsewhere in this prospectus and in the registration statement, and are included in reliance upon those reports given upon the authority of those firms as experts in accounting and auditing.

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HANSEN, BARNETT & MAXWELL
A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS
5 Triad Center, Suite 750
Salt Lake City, UT 84180-1128
Phone: (801) 532-2200
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Registered with the Public Company Accounting Oversight Board

an independent member of BAKER TILLY INTERNATIONAL

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Medical Discoveries, Inc.

We have audited the accompanying consolidated balance sheet of Medical Discoveries, Inc. and subsidiaries (a development stage company) as of December 31, 2004, and the related consolidated statements of operations, changes in stockholders' deficit, and cash flows for the year then ended, and for the period from November 20, 1991 (date of inception of the development stage) through December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the consolidated financial statements of the Company from November 20, 1991 through December 31, 2003, which statements reflect total revenues and deficit accumulated during the development stage of $157,044 and $14,930,259, respectively. Those statements were audited by other auditors whose report, dated February 18, 2004 (except Note K as to which the date is November 15, 2004), included an explanatory paragraph stating there was substantial doubt regarding the Company's ability to continue as a going concern. Our opinion, insofar as it relates to the consolidated financial statements for the period from November 20, 1991 through December 31, 2003, is based solely on the report of the other auditors.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Medical Discoveries, Inc. and subsidiaries as of December 31, 2004, and the results of their operations and their cash flows for the year then ended and for the period from November 20, 1991 through December 31, 2004, in conformity with U.S. generally accepted accounting principles.

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

/s/ **HANSEN, BARNETT & MAXWELL**

Salt Lake City, Utah
March 28, 2005

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of operations, changes in stockholders' deficit, and cash flows of Medical Discoveries, Inc. and Subsidiaries (a development stage company) for the year ended December 31, 2003, and for the period from inception (November 20, 1991) to December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to report on these consolidated financial statements based on our audit. The Company's financial statements for the period from inception (November 20, 1991) through December 31, 1999 were audited by other auditors whose report, dated March 20, 2000, expressed an unqualified opinion on those statements. The financial statements for the period from inception (November 20, 1991) through December 31, 1999 reflect total revenues and net loss of $150,015 and $9,951,404, respectively, of the related totals. The other auditors' report has been furnished to us, and our report, insofar as it relates to the amounts included for such prior period, is based solely on the report of such other auditors.

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

In our opinion, based on our audit and the report of other auditors, such consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of Medical Discoveries, Inc. and Subsidiaries for the year ended December 31, 2003, and for the period from inception (November 20, 1991) to December 31, 2003, in conformity with U.S. generally accepted accounting principles.

The accompanying 2003 consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company is a development stage enterprise engaged in developing biopharmaceutical research. As discussed in Note B to the financial statements, the stockholders' deficiency and the operating losses since inception raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note B. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

/s/ EIDE BAILLY, LLP (formerly
BALUKOFF, LINDSTROM & CO., P.A. —
joined Eide Bailly November 1, 2004)

Boise, Idaho
February 18, 2004, except Note K as to which the date is November 15, 2004

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of Medical Discoveries, Inc. and Subsidiary, (a development stage company) as of December 31, 1999 and 1998, and the related statements of operations, stockholders' deficit and cash flows for the two years ended December 31, 1999 and cumulative amounts since inception. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Medical Discoveries, Inc. and Subsidiary, (a development stage company) as of December 31, 1999 and 1998, and the results of their operations and their cash flows for the two years then ended and cumulative amounts since inception in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 2, the Company's significant losses, lack of significant revenue and a stockholders' deficit raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

TANNER + Co.

Salt Lake City, Utah
March 20, 2000

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED BALANCE SHEET
December 31, 2004

	December 31, 2004
ASSETS	
Current assets	
Cash	$ 1,455,397
Deposit	51,100
Total current assets	1,506,497
Total assets	$ 1,506,497
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current liabilities	
Accounts payable	$ 2,448,454
Accrued interest	415,262
Notes payable	336,717
Convertible notes payable	193,200
Total current liabilities	3,393,633
Stockholders' deficit	
Preferred stock, no par value, 50,000,000 shares authorized; 12,000 shares designated Series A, convertible; 12,000 shares issued and outstanding (aggregate liquidation preference of $1,200,000)	523,334
Common stock, no par value; 250,000,000 shares authorized; 105,653,335 shares issued and outstanding	14,918,657
Additional paid-in capital	3,424,383
Deficit accumulated prior to the development stage	(1,399,577)
Deficit accumulated during the development stage	(19,353,933)
Total stockholders' deficit	(1,887,136)
Total liabilities and stockholders' deficit	$ 1,506,497

See Notes to Consolidated Financial Statements

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2004 and 2003, and
Cumulative Amounts Since November 20, 1991 (Date of Inception of the Development Stage)

	For the Years Ended December 31,		Cumulative Amounts Since November 20, 1991 (Date of Inception of Development Stage)
	2004	2003	
Revenues	$ —	$ —	$ 157,044
Cost of revenues	—	—	14,564
Gross profit	—	—	142,480
Operating expenses:			
Research and development expenses	550,093	100,423	3,548,738
Inventory write-down	—	—	96,859
Impairment loss	—	—	9,709
License	—	—	1,001,500
General and administrative expenses	3,057,429	1,206,484	15,176,970
Operating loss	(3,607,522)	(1,306,907)	(19,691,296)
Other income (expense)			
Interest income	6,165	—	29,571
Other income	1,408	611,558	881,892
Interest expense	(131,526)	(256,694)	(1,117,437)
Forgiveness of debt	—	—	1,235,536
	(123,953)	354,864	1,029,562
Net loss	(3,731,475)	(952,043)	(18,661,734)
Preferred stock dividend from beneficial conversion feature	(692,199)	—	(692,199)
Net loss applicable to common stockholders	$ (4,423,674)	$ (952,043)	$ (19,353,933)
Basic and diluted loss per share	$ (0.05)	$ (0.02)	
Weighted-average shares outstanding	93,947,646	59,302,562	

See Notes to Consolidated Financial Statements

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
Period From November 20, 1991 (Date of Inception of the Development Stage) through December 31, 2004

	Preferred Stock		Common stock		Additional Paid In Capital	Accumulated Deficit Prior to Development Stage	Deficit Accumulated During the Development Stage	Escrow/ Subscription Receivables	Total
	Shares	Amount	Shares	Amount					
Balance at November 20, 1991 (Date of Inception of the Development Stage)	—	—	11,750,000	$ 135,000	$ —	$ (1,399,577)	$ —	$ —	$ (1,264,577)
Issuance of common stock for:									
Cash									
1992 — $0.50 per share	—	—	200,000	100,000	—	—	—	—	100,000
1992 — $1.50 per share	—	—	40,000	60,000	—	—	—	—	60,000
1993 — $0.97 per share	—	—	542,917	528,500	—	—	—	—	528,500
1994 — $1.20 per share	—	—	617,237	739,500	—	—	—	—	739,500
1995 — $0.67 per share	—	—	424,732	283,200	—	—	—	—	283,200
1996 — $0.66 per share	—	—	962,868	635,000	—	—	—	(60,000)	575,000
1997 — $0.43 per share	—	—	311,538	135,000	—	—	—	60,000	195,000
1998 — $0.29 per share	—	—	2,236,928	650,000	—	—	—	—	650,000
1999 — $0.15 per share	—	—	13,334	2,000	—	—	—	—	2,000
2001 — $0.15 per share	—	—	660,000	99,000	—	—	—	—	99,000
Services and Interest									
1992 — $0.50 per share	—	—	500,000	250,000	—	—	—	—	250,000
1993 — $0.51 per share	—	—	251,450	127,900	—	—	—	—	127,900
1993 — $0.50 per share	—	—	800,000	400,000	—	—	—	—	400,000
1994 — $1.00 per share	—	—	239,675	239,675	—	—	—	—	239,675
1995 — $0.39 per share	—	—	4,333,547	1,683,846	—	—	—	(584,860)	1,098,986
1996 — $0.65 per share	—	—	156,539	101,550	—	—	—	—	101,550
1997 — $0.29 per share	—	—	12,500	3,625	—	—	—	—	3,625
1998 — $0.16 per share	—	—	683,000	110,750	—	—	—	—	110,750
1999 — $0.30 per share	—	—	100,000	30,000	—	—	—	—	30,000
2001 — $0.14 per share	—	—	1,971,496	284,689	—	—	—	—	284,689
2002 — $0.11 per share	—	—	2,956,733	332,236	—	—	—	—	332,236
Conversion of Debt									
1996 — $0.78 per share			239,458	186,958	—	—	—	—	186,958
1997 — $0.25 per share	—	—	100,000	25,000	—	—	—	—	25,000
1998 — $0.20 per share	—	—	283,400	56,680	—	—	—	—	56,680
2002-Debt-$0.03 per share	—	—	17,935,206	583,500	—	—	—	—	583,500
Other Issuances									
1993 — License — $0.50 share	—	—	2,000,000	1,000,000	—	—	—	—	1,000,000
1997 — Settlement of contract	—	—	800,000	200,000	—	—	—	—	200,000
1998 — Issuance of common stock from exercise of warrants, $0.001 per share			200,000	200	—	—	—	—	200
2000 — Reversal of shares issued	—	—	(81,538)	—	—	—	—	—	—

See Notes to Consolidated Financial Statements

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT — (Continued)
Period From November 20, 1991 (Date of Inception of the Development Stage) through December 31, 2004

	Preferred Stock		Common Stock		Additional Paid In Capital	Accumulated Deficit Prior to Development Stage	Deficit Accumulated During the Development Stage	Escrow/ Subscription Receivables	Total
	Shares	Amount	Shares	Amount					
Escrow and Subscription Receivables									
1996 — Common stock canceled — $.34 per share	—	—	(1,400,000)	$ (472,360)	$ —	$ —	$ —	$ 472,360	$ —
2000 — Issuance for escrow receivable $0.09 per share	—	—	5,500,000	500,000	—	—	—	(500,000)	—
2000 — Write-off of subscription receivable	—	—	—	—	—	—	—	112,500	112,500
2000 — Research and development costs	—	—	—	—	—	—	—	115,400	115,400
2001 — Research and development costs	—	—	—	—	—	—	—	132,300	132,300
2001 — Operating expenses	—	—	—	—	—	—	—	25,000	25,000
Exercise of Options and Warrants									
1997 — $0.25 per share	—	—	87,836	21,959	—	—	—	—	21,959
1999 — Waived option price $0.14 per share	—	—	170,000	24,000	—	—	—	—	24,000
Value of Options Issued for Services									
1998	—	—	—	2,336,303	—	—	—	—	2,336,303
1999	—	—	—	196,587	—	—	—	—	196,587
2001	—	—	—	—	159,405	—	—	—	159,405
2002	—	—	—	—	124,958	—	—	—	124,958
Other									
1994 — Cash contributed	—	—	—	102,964	—	—	—	—	102,964
1995 — Issuance of common stock option to satisfy debt restructuring	—	—	—	20,000	—	—	—	—	20,000
Net loss from inception through December 31, 2002	—	—	—	—	—	—	(13,978,216)	—	(13,978,216)
Balance at December 31, 2002	**—**	**—**	55,598,856	11,713,262	284,363	(1,399,577)	(13,978,216)	(227,300)	(3,607,468)
Value of options issued for services	—	—	—	—	295,000	—	—	—	295,000
Issuance of common stock for:									
Cash — $0.04 per share	—	—	20,162,500	790,300	—	—	—	—	790,300
Services and interest — $0.06 per share	—	—	694,739	43,395	—	—	—	—	43,395
Net loss for the year ended December 31, 2003	—	—	—	—	—	—	(952,043)	—	(952,043)
Balance at December 31, 2003	—	—	76,456,095	12,546,957	579,363	(1,399,577)	(14,930,259)	(227,300)	(3,430,816)
Issuance and extension of options for services	—	—	—	—	1,675,000	—	—	—	1,675,000
Termination of escrow agreement	—	—	(2,356,200)	(227,300)	—	—	—	227,300	—
Issuance of preferred stock and warrants for cash (net $130,000, common stock and warrants issued to placement agent)	12,000	523,334	350,000	68,845	477,821	—	—	—	1,070,000
Convertible preferred stock beneficial conversion dividend	—	—	—	—	692,199	—	(692,199)	—	—
Issuance of common stock for:									
Cash $0.09 per share	—	—	20,138,024	1,813,186	—	—	—	—	1,813,186
Debt and interest $0.07 per share	—	—	9,875,951	650,468	—	—	—	—	650,468
Services $0.06 per share	—	—	1,189,465	66,501	—	—	—	—	66,501
Net loss for the year ended December 31, 2004	—	—	—	—	—	—	(3,731,475)	—	(3,731,475)
Balance at December 31, 2004	12,000	$ 523,334	105,653,335	$ 14,918,657	$ 3,424,383	$ (1,399,577)	$ (19,353,933)	$ —	$ (1,887,136)

See Notes to Consolidated Financial Statements

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2004 and 2003, and
Cumulative Amounts Since November 20, 1991 (Date of Inception of the Development Stage)

	For the Year Ended December 31,		Cumulative Amounts Since November 20, 1991 (Date of Inception of Development Stage)
	2004	2003	
Cash flows from operating activities			
Net loss	$ (3,731,475)	$ (952,043)	$ (18,661,734)
Adjustments to reconcile net loss to net cash from operating activities:			
Common stock options issued for services	1,675,000	295,000	4,811,253
Common stock issued for services, expenses, and litigation	66,501	43,395	4,267,717
Reduction of escrow receivable from research and development	—	—	272,700
Reduction of legal costs	—	—	(130,000)
Notes payable issued for litigation	—	—	385,000
Depreciation	—	—	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			
Prepaid expenses	11,331	24,929	—
Deferred charges	12,077	48,305	—
Accounts receivable	—	—	(7,529)
Inventory	—	—	—
Accounts payable	381,727	(211,311)	2,292,545
Accrued expenses	53,934	176,086	599,709
Net cash from operating activities	(1,530,905)	(575,639)	(6,959,066)
Cash flows from investing activities			
Increase in deposit	(51,100)	—	(51,100)
Purchase of equipment	—	—	(132,184)
Payments received on note receivable	—	—	130,000
Net cash from investing activities	(51,100)	—	(53,284)
Cash flows from financing activities			
Contributed equity	—	—	131,374
Issuance of common stock, preferred stock and warrants	2,883,186	790,300	7,027,845
Payments on notes payable	(270,000)	(25,000)	(501,287)
Proceeds from notes payable	—	220,000	1,336,613
Payments on convertible notes payable	—	—	(98,500)
Proceeds from convertible notes payable	—	—	571,702
Net cash from financing activities	2,613,186	985,300	8,467,747
Net increase in cash	1,031,181	409,661	1,455,397
Cash, beginning of period	424,216	14,555	—
Cash, end of period	$ 1,455,397	$ 424,216	$ 1,455,397
Supplemental disclosure of non-cash activities			
Interest paid	$ 77,592	$ 80,608	
Noncash investing and financing activities			
Retirement of notes payable and interest through issuance of common stock	$ 650,468	—	
Release of shares as part of Perrigrine settlement	$ 227,300	—	
Common stock and warrants issued to placement agent	$ 162,746	—	
Preferred stock dividend as part of beneficial conversion feature	$ 692,199	—	

See Notes to Consolidated Financial Statements

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

NOTE A — SIGNIFICANT ACCOUNTING POLICIES

Medical Discoveries, Inc. ("MDI" or the "Company") was incorporated under the laws of the State of Utah on November 20, 1991. Effective as of August 6, 1992, the Company merged with and into WPI Pharmaceutical, Inc., a Utah corporation ("WPI"), pursuant to which WPI was the surviving corporation. Pursuant to the MDI-WPI merger, the name of the surviving corporation was changed to Medical Discoveries, Inc.

On July 6, 1998, the Company incorporated a wholly owned subsidiary, Regenere, Inc., in the State of Nevada. On October 2, 1998, the Company incorporated another wholly owned subsidiary, MDI Healthcare Systems, Inc., in the State of Nevada. As of December 31, 2003, the Company dissolved those subsidiaries.

On March 22, 2005, the Company formed MDI Oncology, Inc., a Delaware corporation, as a wholly-owned subsidiary to acquire and operate the assets and business associated with the Savetherapeutics transaction, discussed further in Note J.

Principles of Consolidation

The consolidated financial statements include the accounts of Medical Discoveries, Inc. and subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

Development Stage Company

The Company has not generated any significant revenue and is, therefore, considered a development stage company as defined in the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 7. The Company has, at the present time, not paid any dividends. Any dividends that may be paid in the future will depend upon the financial requirements of the Company. The primary purpose of the business is the research and development of pharmaceuticals.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments maturing in three months or less to be cash equivalents. At year end, the Company has cash deposits in excess of federally insured limits. The Company had an insured bank balance of $114,564 at December 31, 2004.

Income Taxes

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and the carryforward of operating losses and tax credits and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. An allowance against deferred tax assets is recorded when it is more likely than not that such tax benefits will not be realized. Research tax credits are recognized as utilized.

Research and Development

Research and development has been the principal function of the Company. Expenses in the accompanying financial statements include certain costs which are directly associated with the Company's research and development of the Company's anti-infective pharmaceutical, MDI-P. These costs, which consist primarily of pre-clinical testing activities, amounted to $550,093 and $100,423 and $3,548,738 for the year ended December 31, 2004 and 2003 and for the period November 20, 1991 (date of inception of the development stage) through December 31, 2004, respectively.

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS — (Continued)

Fair Value of Financial Instruments

The Company estimates that the fair value of all financial instruments, at December 31, 2004, do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these financial statements include those assumed in determining the valuation of common stock and stock options. It is at least reasonably possible that the significant estimates used will change within the next year.

Basic and Diluted Loss per Share

Basic loss per share is computed on the basis of the weighted-average number of common shares outstanding during the year. Diluted loss per share is computed on the basis of the weighted-average number of common shares and all dilutive potentially issuable common shares outstanding during the year. Common stock equivalents, stock options and stock warrants have not been included as they are anti-dilutive.

Concentration of Credit

The Company has no significant revenues and, therefore, no significant trade receivables or extensions of credit.

Stock Based Compensation

The Company accounts for its stock-based compensation issued to non-employees using the fair value method in accordance with SFAS No. 123, “Accounting for Stock-Based Compensation.” Under SFAS No. 123, stock-based compensation is determined as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The measurement date for these issuances is the earlier of the date at which a commitment for performance is reached or the date at which the recipient’s performance is complete.

The Company accounts for employee stock option and award plans under the recognition method and measurement principles of APB Opinion No. 25, “Accounting for Stock Issued to Employees,” and the related Interpretations. Under APB Opinion No. 25, compensation related to stock options, if any, is recorded if an option’s exercise price on the measurement date is below the fair value of the Company’s common stock. The compensation is amortized to expense over the vesting period.

These accounting policies resulted in the Company recognizing $1,675,000 and $295,000 in stock-based compensation cost during the years ended December 31, 2004 and 2003. The effect on net loss and

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS — (Continued)

net loss per common share if the Company had applied the fair value recognition provisions of SFAS No. 123 to employee stock-based compensation is as follows:

	Fiscal Year Ended December 31,	
	2004	2003
Net loss applicable to common stockholders, as reported	$ (4,423,674)	$ (952,043)
Add: Stock-based employee compensation expense included in reported net loss	1,675,000	295,000
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards	(1,979,237)	(473,200)
Pro forma net loss applicable to common shareholders	$ (4,727,911)	$ (1,130,243)
Basic and diluted loss per share, as reported	$ (0.05)	$ (0.02)
Basic and diluted loss per share, pro forma	$ (0.05)	$ (0.02)

Recently Issued Accounting Statements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), “Share-Based Payment,” which is an amendment to SFAS No. 123, “Accounting for Stock-Based Compensation.” This new standard eliminates the ability to account for share-based compensation transactions using Accounting Principles Board (APB) No. 25, “Accounting for Stock Issued to Employees” (APB 25) and requires such transactions to be accounted for using a fair-value-based method and the resulting cost recognized in the Company’s financial statements. This new standard is effective for interim and annual periods beginning after June 15, 2005. The Company intends to implement SFAS No. 123 in the third quarter of 2005 and it will not currently have any effect on the Company’s financial statements.

In December 2004, the FASB issued SFAS Statement No. 153, “Exchanges of Non-monetary Assets — an amendment of APB Opinion No. 29’ This Statement amends APB Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Statement will be effective in January 2006. The Company does not expect that the adoption of SFAS No. 153 will have a material impact on its Consolidated Financial Statements.

Reclassifications

Certain 2003 amounts have been reclassified to conform to the 2004 presentation. These reclassifications had no effect on the previously reported net loss.

NOTE B — BASIS OF PRESENTATION AND GOING CONCERN

As shown in the accompanying financial statements, the Company incurred a net loss applicable to common shareholders of $4,423,674 during the year ended December 31, 2004 and has incurred losses applicable to common shareholders since inception of the development stage of $19,353,933. The Company has not had significant revenues and is still in the process of testing and commercializing its technologies. The Company is hopeful, but there is no assurance, that the current product development and research will be economically viable. Those factors raise substantial doubt about the Company’s ability to continue as a going concern.

Management plans to meet its cash needs through the issuance of equity or debt securities and the potential licensure of its technologies. The ability of the Company to continue as a going concern is dependent

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS — (Continued)

on that plan's success. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

NOTE C — INCOME TAXES

Income taxes are provided for temporary differences between financial and tax basis income. The following is a reconciliation of the amount of benefit that would result from applying the federal statutory rate to pretax loss with the benefit from income taxes for the year ended December 31, 2004:

	Years Ended December 31,	
	2004	2003
Federal income tax benefit at statutory rate (34%)	$ 1,268,000	$ 327,000
State income tax, net of federal benefit	224,000	38,000
Revaluation and expiration of options	(631,000)	(108,000)
Change in valuation allowance	(861,000)	(257,000)
	$ —	$ —

The components of net deferred taxes are as follows at December 31 using a combined deferred tax rate of 40%:

	2004
Net operating loss carryforward	$ 5,132,000
Research and development credits	80,000
Stock options	646,000
Accrued compensation	396,000
Valuation allowance	(6,254,000)
Net deferred tax asset	$ —

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

The Company has available net operating losses of approximately $12,830,000 which can be utilized to offset future earnings of the Company. The Company also has available approximately $80,000 in research and development credits which expire in 2008. The utilization of the net operating losses and research and development credits are dependent upon the tax laws in effect at the time such losses can be utilized. The losses begin to expire between the years 2007 and 2023. Should the Company experience a change of ownership the utilization of net operating losses could be reduced.

NOTE D — NOTES PAYABLE

The Company has the following notes payable at December 31, 2004:

Notes payable to shareholders, which are currently due and in default. Interest is at 12%. The notes are unsecured	$ 336,717

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS — (Continued)

NOTE E — CONVERTIBLE NOTES PAYABLE

The Company has the following convertible notes payable at December 31, 2004:

Convertible notes payable to a trust, which are currently due and in default. Interest is at 12%. Each $1,000 note is convertible into 667 shares of the Company's common stock	$	193,200

NOTE F — STOCKHOLDERS' EQUITY

Series A Convertible Preferred Stock

On October 18, 2004, the Company issued 12,000 shares of Series A Convertible Preferred Stock and warrants to purchase 4,575,495 shares of common stock for a total offering price of $1.2 million. The Company incurred $130,000 of offering costs and issued to the placement agent 350,000 shares of common stock (valued at $0.20 per share) and warrants to purchase 488,052 shares of common stock exercisable at $0.1967 per share which are exercisable for a period of three years. The Company valued these warrants at $0.19 per share using a Black Scholes option pricing model with the following assumptions: risk free rate 2.82%, volatility of 171% and an expected life of three years.

Each share of Preferred Stock entitles the holder to convert the share of Preferred Stock into the number of shares of common stock resulting from multiplying $100 by the conversion price. The conversion price is 85% of the average of the lowest three intra-day trading prices for the Company's common stock during the 10 trading days immediately preceding the conversion date, but the conversion price may not exceed $0.1967 or be lower than $0.05 per share. The warrants are subject to equitable adjustment in connection with a stock split, stock dividend or similar transaction. The warrants entitle the holder to purchase up to 4,575,495 shares of common stock of the Company on or before the third anniversary of the issuance date of the warrants at $0.1967 per share.

The Company has allocated the proceeds from the issuance of the Series A Convertible Preferred Stock and warrants, based on their relative fair values on the date of issuance which are as follows: $1,200,000 to the Series A Convertible Preferred and $880,325 to the warrants. The warrants were valued using the Black Scholes Pricing model using the following assumptions: volatility of 171%, risk-free interest rate of 2.82% and a term of three years. The allocation of the net proceeds resulted in $523,334 being allocated to the Series A Convertible Preferred Stock and $383,920 being allocated to the warrants. The Company recognized a beneficial conversion dividend of $692,199 on the date of issuance equal to the value allocated to the Series A Convertible Preferred Stock (before offering costs). The actual value of the beneficial conversion option was $719,177, but the dividend was limited to the amount of gross proceeds allocated to the Series A Convertible Preferred Stock.

The Series A Convertible Preferred Stock has no dividend or voting rights. In the event of liquidation, the holders are entitled to a liquidating distribution of $100 per share. The number of shares of common stock subject to the warrants and the exercise price are subject to equitable adjustment in connection with a stock split, stock dividend or similar transaction. The Company also entered into a Registration Rights Agreement with Monarch Pointe Fund, Ltd. and Mercator Advisory Group, LLC, requiring the Company to file a registration statement with the Securities and Exchange Commission registering the shares of common stock issuable upon conversion of the Preferred Stock and exercise of the warrants.

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 December 31, 2003, 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 was recorded in equity under the caption escrow receivable. As expenditures are made from the escrow for research and development, the expenses are recorded by 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 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. As of February 20, 2004, the Company held Peregrine in breach with respect to its remaining funding obligation and terminated the Peregrine research agreement. The Company and Peregrine resolved the matter during 2004 by the Company agreeing to grant Peregrine a warrant to purchase 2,356,200 shares of restricted common stock at an exercise price of $0.09 per share, exercisable at any time within 3 years. The exchange of the escrow receivable for the warrants was considered a financing transaction, with no additional expense being recorded. The Company reversed the $227,300 escrow receivable and cancelled the remaining 2,356,200 shares held in escrow.

Common Stock and Warrants Issued for Cash

During 2004, as part of a private placement offering, the Company issued 5,551,011 shares of common stock for $0.18 per share or $999,180. In conjunction with the private placement, the Company issued to these investors warrants to purchase 5,551,011 shares of common stock at $0.18 per share. These warrants expire three years from the date of issuance.

Conversion of Notes Payable and Convertible Notes Payable to Common Stock

During the year ended December 31, 2004, the Company converted $487,503 of principal and $162,964 of interest related to notes payable and convertible notes payable into 9,875,951 shares of common stock. The conversion prices ranged from $0.06 to $0.21 per share.

NOTE G — STOCK OPTIONS AND WARRANTS

Stock Options

The Company has two incentive stock option plans wherein 24,000,000 shares of the Company's common stock are reserved for issuance thereunder. The Company granted 700,000 fully vested stock options during the year ended December 31, 2004 to consultants with an exercise price of $0.05. These options were valued at $98,000 using the Black Scholes pricing model using the following weighted average assumptions: risk free interest of 3.8%, expected dividend yield of 0%, volatility of 220% and an expected life of 7 years. During the year ended December 31, 2003, the Company granted 14,800,000 fully vested stock options to an officer and directors with exercise prices ranging from $0.01 to $0.05, the Company recognized stock compensation expense of $295,000 related to this issuance.

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS — (Continued)

The following summarizes option activity for the years ended December 31, 2004 and 2003:

	Number of Options	Option Price per Share
Outstanding at January 1, 2003	4,583,000	$ 0.01 to 0.50
Granted	14,800,000	0.01 to 0.05
Expired	(600,000)	0.25
Outstanding at December 31, 2003	18,783,000	$ 0.01 to 0.50
Granted	700,000	0.05
Outstanding at December 31, 2004	19,483,000	$ 0.01 to 0.50
Exercisable at December 31, 2003	18,783,000	$ 0.01 to 0.50
Exercisable at December 31, 2004	19,483,000	$ 0.01 to 0.50

The following table summarizes information about fixed stock options outstanding at December 31, 2004:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.01 to 0.02	16,000,000	8.7	$ 0.02	16,000,000	$ 0.02
$0.05	1,500,000	7.1	$ 0.05	1,500,000	$ 0.05
$0.15 to 0.50	1,983,000	7.1	$ 0.23	1,983,000	$ 0.23
	19,483,000			19,483,000	

Assumptions used to calculate the impact of stock options granted as if the Company had adopted FAS 123 were as follows:

	2004	2003
Expected dividend yield	—	—
Risk free interest rate	3.8%	5.0%
Expected volatility	220%	511%
Expected life	7 years	10 years
Weighted average fair value per share	$ 0.10	$ 0.04

During 2004, the Company extended the expiration date of options to purchase an aggregate amount of 18,603,000 shares of stock. As a result of such extension, such options expire from between 2011 to 2013. These options are subject to a one-time remeasurement of the options as if they were newly granted. The expense associated with the change in expiration date was $1,577,000.

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS — (Continued)

Stock Warrants

The following summarizes warrant activity for the years ended December 31, 2004 and 2003:

	Number of Warrants	Warrant Price per Share
Outstanding at January 1, 2003	3,616,005	$ 0.10 to 1.00
Outstanding at December 31, 2003	3,616,005	0.10 to 1.00
Granted	12,920,751	0.09 to 0.20
Forfeited	(1,666,005)	0.10 to 0.40
Outstanding at December 31, 2004	14,870,751	$ 0.09 to 1.00

The following table summarizes information about warrants outstanding at December 31, 2004:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$0.09	2,356,200	3.0	$ 0.09
$0.18 to 0.20	10,564,551	2.8	$ 0.19
$1.00	1,950,000	2.0	$ 1.00
	14,870,751		

NOTE H — RELATED PARTY TRANSACTIONS

At December 31, 2004 the Company had accounts payable to current and former officers and directors totaling $1,491,586 for services performed and costs incurred in behalf of the Company, including $902,636 payable to the Company's President and CEO. Also at December 31, 2004, the Company had an account payable to its controller of $87,444.

NOTE I — COMMITMENT REGARDING CONSULTING AGREEMENT

The Company entered into a consulting agreement with Craig R. Palmer (d/b/a Palmer Consulting Group) dated April 7, 2003 and amended as of September 16, 2004, pursuant to which Palmer is to render certain services to the Company relating to the development and commercialization of the Company's technology. Under the agreement, Palmer was paid a consulting fee equal to $20,000 in cash and 500,000 shares of stock. From October 1, 2004, he also accrues a consulting fee of $8,000 per month, $3,500 per month of which is paid monthly and the balance of which is paid in the CEO's discretion as the Company's cash flow permits. The agreement also provides Palmer with the opportunity to earn a contingent fee of 5% of the value of any out-licensing, distribution or co-marketing agreements Palmer secures for the Company and an opportunity to earn 1,500,000 shares of stock upon the successful filing of an investigational new drug application in HIV with the U.S. Food and Drug Administration. The Company has not recorded a liability for the contingent fees due to the uncertainty that such events will occur.

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS — (Continued)

NOTE J — SUBSEQUENT EVENTS

Formation of MDI Oncology, Inc.

On March 22, 2005, the Company formed MDI Oncology, Inc., a Delaware corporation, as a wholly-owned subsidiary to acquire and operate the assets and business associated with the Savetherapeutics transaction.

Savetherapeutics A.G. Asset Acquisition

On March 16, 2005, Medical Discoveries, Inc. (the "Company") completed the purchase of the intellectual property assets (the "Assets") of Savetherapeutics AG, a German corporation in liquidation in Hamburg, Germany ("SaveT"). The Assets consist primarily of patents, patent applications, preclinical study data and clinical trial data concerning SaveCream, SaveT's developmental topical aromatase inhibitor treatment for breast cancer.

The purchase price of the Assets is €2,350,000 (approximately $3.1 million under current exchange rates) payable as follows: €500,000 at closing, €500,000 upon conclusion of certain pending transfers of patent and patent application rights from SaveT's inventors to the Company, and €1,350,000 upon successful commercialization of the Assets. The Company's source of funds for the acquisition is a $3 million equity investment by Mercator Momentum Fund LP and Mercator Momentum Fund III LP, as described below. Neither SaveT nor any employee of SaveT has a material relationship with the Company or any of its affiliates, any director or officer of the Company or any associate of any such director or officer.

Issuance of Series A Preferred Stock

On or about March 14, 2005, the Company issued 30,000 shares of Preferred Stock and warrants to purchase 22,877,478 shares of common stock for a total offering price of $3 million. Each share of Preferred Stock entitles the holder to convert the share of Preferred Stock into the number of shares of common stock resulting from multiplying $100 by the conversion price. The conversion price is 75% of the average of the lowest three intra-day trading prices for the Company's common stock during the 10 trading days immediately preceding the conversion date, but the conversion price may not exceed $0.1967. The number of shares of common stock subject to the warrants and the exercise price are subject to equitable adjustment in connection with a stock split, stock dividend or similar transaction. The warrants entitle the holder to purchase up to 22,877,478 shares of common stock of the Company on or before the third anniversary of the issuance date of the warrants at $0.1967 per share.

NOTE K — CUMULATIVE NET LOSS

The Statements of Operations was amended to correct a previously reported error in the cumulative net loss amount since inception through December 31, 2003 (not presented herein). While the Company previously reported the correct cumulative net loss on the Statements of Cash Flows through December 31, 2003 (not presented herein), the same figure as reported on the Statements of Operations through December 31, 2003 (not presented herein) was erroneous based on an apparent incorrect calculation in the 1999 annual report, which error had been carried forward. The previously reported cumulative net loss amount through December 31, 2003 (not presented herein) of $14,141,763 was corrected to $14,930,259.

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES

(A Development Stage Company)
Condensed Consolidated Balance Sheets
(Unaudited)

	June 30, 2005	December 31, 2004
ASSETS		
CURRENT ASSETS		
Cash	$ 2,424,197	$ 1,455,397
Deposits	51,100	51,100
Total Current Assets	2,475,297	1,506,497
Property and Equipment, Net	67,621	—
TOTAL ASSETS	$ 2,542,918	$ 1,506,497
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$ 2,611,343	$ 2,448,454
Accrued interest payable	222,760	415,262
Notes payable	56,000	336,717
Convertible notes payable	193,200	193,200
Research and development obligation	604,900	—
Total Current Liabilities	3,688,203	3,393,633
TOTAL LIABILITIES	3,688,203	3,393,633
STOCKHOLDERS' DEFICIT		
Preferred stock, Series A, convertible; no par value; 42,000 shares authorized; 42,000 and 12,000 shares issued and outstanding, respectively; (aggregate liquidation preference of $4,200,000 and $1,200,000, respectively)	1,570,109	523,334
Common stock, no par value; 250,000,000 shares authorized; 107,829,724 and 105,653,335 shares issued and outstanding, respectively	15,310,407	14,918,657
Additional paid-in capital	6,302,017	3,424,383
Deficit accumulated prior to the development stage	(1,399,577)	(1,399,577)
Deficit accumulated during the development stage	(22,928,241)	(19,353,933)
Total Stockholders' Deficit	(1,145,285)	(1,887,136)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 2,542,918	$ 1,506,497

See notes to condensed consolidated financial statements.

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES

(A Development Stage Company)
Condensed Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		From Inception of the Development Stage on November 20, 1991 Through June 30,
	2005	2004	2005	2004	2005
REVENUES	$ —	$ —	$ —	$ —	$ 157,044
COST OF GOODS SOLD	—	—	—	—	14,564
GROSS PROFIT	—	—	—	—	142,480
OPERATING EXPENSES					
General and administrative	636,325	369,270	888,321	2,416,963	16,065,291
Research and development	118,520	132,335	1,670,506	170,978	5,219,244
Inventory write-down	—	—	—	—	96,859
Impairment loss	—	—	—	—	9,709
License fees	—	—	—	—	1,001,500
Total Expenses	754,845	501,605	2,558,827	2,587,941	22,392,603
LOSS FROM OPERATIONS	(754,845)	(501,605)	(2,558,827)	(2,587,941)	(22,250,123)
OTHER INCOME (EXPENSES)					
Interest income	9,346	1,426	14,910	3,126	44,481
Interest expense	(7,237)	(33,048)	(23,135)	(86,724)	(1,140,572)
Foreign currency transaction gain	40,900	—	60,800	—	60,800
Gain on forgiveness of debt	196,353	—	196,353	—	1,431,889
Other income	—	720	—	720	881,892
Total Other Income (Expenses)	239,362	(30,902)	248,928	(82,878)	1,278,490
NET LOSS	(515,483)	(532,507)	(2,309,899)	(2,670,819)	(20,971,633)
Preferred stock dividend from beneficial conversion feature	—	—	(1,264,409)	—	(1,956,608)
NET LOSS APPLICABLE TO COMMON SHAREHOLDERS	$ (515,483)	$ (532,507)	$ (3,574,308)	$ (2,670,819)	$ (22,928,241)
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.00)	$ (0.01)	$ (0.03)	$ (0.03)	
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	107,580,033	92,393,559	107,043,413	88,478,847	

See notes to unaudited condensed consolidated financial statements.

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES

(A Development Stage Company)
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	For the Six Months Ended June 30,		From Inception of the Development Stage on November 20, 1991 Through June 30, 2005
	2005	2004	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Loss	$ (2,309,899)	$ (2,670,819)	$ (20,971,633)
Adjustments to reconcile net loss to net cash used by operating activities:			
Foreign currency transaction gain	(60,800)	—	(60,800)
Gain on debt restructuring	(196,353)	—	(1,431,889)
Common stock issued for services, expenses, and litigation	18,750	1,750,954	4,286,467
Commitment for research and development obligation	665,700	—	665,700
Depreciation	870	—	101,141
Reduction of escrow receivable from research and development	—	—	272,700
Stock options and warrants granted for services	—	—	4,811,253
Reduction of legal costs	—	—	(130,000)
Write-off of subscriptions receivable	—	—	112,500
Impairment of loss on assets	—	—	9,709
Loss on disposal of equipment	—	—	30,364
Write-off of accounts receivable	—	—	193,965
Note payable issued for litigation	—	—	385,000
Changes in operating assets and liabilities			
Increase in accounts receivable	—	—	(7,529)
Decrease in prepaid expenses	—	11,331	—
Decrease in deferred charges	—	12,077	—
Increase in accounts payable	162,889	293,150	2,455,434
Increase in accrued expenses	23,134	2,516	622,843
Net Cash Used by Operating Activities	(1,695,709)	(600,791)	(8,654,775)
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in deposits	—	—	(51,100)
Purchase of equipment	(68,491)	—	(200,675)
Payments received on note receivable	—	—	130,000
Net Cash Used by Investing Activities	(68,491)	—	(121,775)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock, preferred stock and warrants for cash	3,033,000	718,504	10,060,845
Contributed equity	—	—	131,374
Proceeds from notes payable	—	—	1,336,613
Payments on notes payable	(300,000)	(195,000)	(801,287)
Proceeds from convertible notes payable	—	—	571,702
Payments on convertible notes payable	—	—	(98,500)
Net Cash Provided by Financing Activities	2,733,000	523,504	11,200,747
NET INCREASE IN CASH	968,800	(77,287)	2,424,197
CASH AT BEGINNING OF PERIOD	1,455,397	424,216	—
CASH AT END OF PERIOD	$ 2,424,197	$ 346,929	$ 2,424,197

See notes to condensed consolidated financial statements

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A Development Stage Company)
Condensed Consolidated Statements of Cash Flows (Continued)
(Unaudited)

	For the Six Months Ended June 30,	
	2005	2004
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Preferred stock dividend as part of beneficial conversion feature	$1,264,409	$ —
Retirement of notes payable with common stock	$ —	$175,000

See notes to Unaudited condensed consolidated financial statements.

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES

(A Development Stage Company)
Notes to the Unaudited Condensed Consolidated Financial Statements

Note 1 — Basis of Presentation

Unaudited Interim Consolidated Financial Statements

The accompanying unaudited consolidated 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 for 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 2004 Annual Report on Form 10-KSB for the year ended December 31, 2004, 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.

Stock Based Compensation

The Company accounts for its stock options under Accounting Principles Board (APB) Opinion No. 25 using the intrinsic value method. The Company has elected not to adopt the provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (FAS 123). In accordance with Financial Accounting Standards (SFAS) No. 148, Accounting for Stock-Based Compensation – Transition and Disclosure, pro-forma net income, stock-based compensation expense, and earnings per share using the fair value method are stated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net loss applicable to common shareholders, as reported	$ (515,483)	$ (532,507)	$ (3,574,308)	$ (2,670,819)
Add: Stock-based employee compensation expense included in reported net loss	—	—	—	1,577,000
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards	—	—	—	(1,916,768)
Pro forma net loss applicable to common shareholders	$ (515,483)	$ (532,507)	$ (3,574,308)	$ (3,010,587)
Basic and diluted loss per share, as reported	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.03)
Basic and diluted loss per share, pro forma	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.03)

Assumptions used to calculate the income statement impact of stock options granted as if the Company had adopted FAS 123 were as follows:

	2005	2004
Expected dividend yield	N/A	—
Risk free interest rate	N/A	3.8%
Expected volatility	N/A	220%
Expected life	N/A	7 years
Weighted average fair value per share	N/A	$ 0.10

Loss Per Common Share

Loss per share is computed by dividing net loss applicable to common shareholders by the weighted-average number of shares outstanding. Potential common shares from convertible notes payable, warrants and stock options have not been included as they are anti-dilutive.

Note 2 — Going Concern Considerations

The Company's recurring losses from 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 fund research and development costs until it is able to consistently

generate revenues and sustain profitable operations. However, there can be no assurance that these plans will be successful.

Note 3 — Issuance of Common Stock, Preferred Stock, and Warrants

Common Stock

During the six months ended June 30, 2005, the Company issued 2,176,389 shares of restricted common stock, 104,167 of which were issued for services valued at $18,750 and 2,072,222 of which were issued for cash totaling $373,000. In connection with the sales for cash, the Company also issued warrants to purchase 2,072,222 shares of restricted common stock at $0.18 per share, expiring 3 years from the date of issuance.

Preferred Stock and Warrants

During the six months ended June 30, 2005, the Company issued 30,000 shares of Series A Convertible Preferred Stock and warrants to purchase 22,877,478 shares of common stock for a total offering price of $3.0 million. The Company incurred $340,000 of offering costs and issued to the placement agent warrants to purchase 1,220,132 shares of common stock exercisable at $0.1967 per share which are exercisable for a period of three years. The Company valued these warrants at $213,889 ($0.18 per share) using a Black Scholes option pricing model with the following assumptions: risk free rate 2.82%, volatility of 203% and an expected life of three years.

Each share of Preferred Stock entitles the holder to convert the share of Preferred Stock into the number of shares of common stock resulting from multiplying $100 by the conversion price. The conversion price is 85% of the average of the lowest three intra-day trading prices for the Company's common stock during the 10 trading days immediately preceding the conversion date, but the conversion price may not exceed $0.1967. The warrants are subject to equitable adjustment in connection with a stock split, stock dividend or similar transaction. The warrants entitle the holder to purchase up to 22,877,478 shares of common stock of the Company on or before the third anniversary of the issuance date of the warrants at $0.1967 per share.

The Company has allocated the proceeds from the issuance of the Series A Convertible Preferred Stock and warrants, based on their relative fair values on the date of issuance which are as follows: $3,000,000 to the Series A Convertible Preferred and $4,010,422 to the warrants. The warrants were valued using the Black Scholes Pricing model using the following assumptions: volatility of 203%, risk-free interest rate of 2.82% and a term of three years. The allocation of the net proceeds resulted in $1,046,775 being allocated to the Series A Convertible Preferred Stock and $1,399,336 being allocated to the warrants. The Company recognized a beneficial conversion dividend of $1,264,409 on the date of issuance equal to the value allocated to the Series A Convertible Preferred Stock (before offering costs). The actual amount of the beneficial conversion was $4,037,917 but the dividend is limited to the amount of gross proceeds allocated to the Series A Convertible Preferred Stock.

The Series A Convertible Preferred Stock has no voting rights. In the event of liquidation, the holders are entitled to a liquidating distribution of $100 per share. The number of shares of common stock subject to the warrants and the exercise price are subject to equitable adjustment in connection with a stock split, stock dividend or similar transaction. The Company also entered into a Registration Rights Agreement with the investors requiring the Company to file a registration statement with the Securities and Exchange Commission registering the shares of common stock issuable upon conversion of the Preferred Stock and exercise of the warrants.

Note 4 — Other Significant Events

SaveCream Asset Purchase

On March 16, 2005, the Company completed the purchase of the intellectual property assets (the "Assets") of Savetherapeutics AG, a German corporation in liquidation in Hamburg, Germany ("SaveT"). The Assets consist primarily of patents, patent applications, pre-clinical study data and clinical trial data concerning SaveCream,

SaveT's developmental-stage topical aromatase inhibitor treatment for breast cancer. SaveCream never generated revenues for SaveT. The Company's analysis as to whether the intellectual property purchased constituted a business resulted in the conclusion that no such business had been acquired.

The purchase price of the Assets was negotiated to be€2,350,000 (approximately $2.8 million under current exchange rates), payable as follows: €500,000 at closing, €500,000 (approximately $665,700 on the date of transaction, $604,900 using the June 30, 2005 exchange rates) upon conclusion of certain pending transfers of patent and patent application rights from SaveT's inventors to the Company, and the remaining €1,350,000 (approximately $1.74 million at current exchange rates) upon successful commercialization of the Assets. The Company's source of funds for the acquisition was a $3 million investment in the Company's Series A Preferred Stock by an unrelated third party, as described in Note 3.

SaveT inventors have yet to assign the patent and application rights to the Company, management has deemed the assignment of the rights to be reasonably likely because the inventors are contractually bound to execute and deliver the assignments; therefore, the Company has recorded the second €500,000 payment as a current liability in these financial statements. At present it is undeterminable whether the intellectual property will ever be commercialized; therefore, the final €1,350,000 under this acquisition has not been accrued as a liability as of June 30, 2005. The Company determined the intellectual property purchased should be expensed as research and development costs

Formation of MDI Oncology, Inc.

On March 22, 2005, the Company formed MDI Oncology, Inc., a Delaware Corporation, as a wholly-owned subsidiary for the purpose of acquiring and operating the assets and associated business ventures associated with the SaveCream purchase.

Settlement of Debt

On April 1, 2005, the Company negotiated a settlement regarding notes payable totaling $280,717 and accrued interest of $215,636, by payment of $300,000 in cash. The Company recognized a gain on settlement of debt totaling $196,353.

No dealer, salesman or other person is authorized to give any information or to make any representations not contained in this prospectus in connection with the offer made hereby, and, if given or made, such information or representations must not be relied upon as having been made by us.

This prospectus does not offer to sell or buy any securities in any jurisdiction where it is unlawful.

The information in this prospectus is current as of the date hereof. Neither the delivery of this prospectus nor any sale made hereunder shall create any implication that the information contained herein is correct as of any time subsequent to the date hereof.

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113,511,158 shares common stock

Medical Discoveries, Inc.

Prospectus

October 12, 2005

PART II
INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 24. Indemnification of Officers and Directors

Part 9 of the Utah Business Corporation Act empowers a corporation to indemnify its directors and officers, advance or reimburse expenses to its directors and officers, and to purchase insurance with respect to liability arising out of their capacity or status as directors and officers. Such indemnification is permissible in certain situations and mandatory in other situations. In cases where indemnification or advancing or reimbursing of expenses is permissible, authorization and a determination of qualification must be made in each specific case. The Registrant's articles of incorporation and bylaws provide for the indemnification of its directors and officers to the fullest extent permitted by law.

Item 25. Other Expenses of Issuance and Distribution

The following table sets forth the various expenses of the offering, sale and distribution of the offered securities being registered pursuant to this registration statement (the "Registration Statement"). We will bear all of the expenses listed below. All of the amounts shown are estimates except the SEC registration fees.

Item	Amount
SEC registration fees	$ 2,760
Accounting and legal fees and expenses	$ 85,000
Printing expenses	$ 10,000
Miscellaneous expenses	$ 1,000
Total:	$ 98,760

Item 26. Recent Sales of Unregistered Securities

We sold the following unregistered securities in the past three years. None of the sales involved an underwriter. We believe these sales were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 because the sales did not involve a public offering.

- On August 31, 2005, we sold the following number of shares of restricted common stock to the following investors for cash of $0.18 per share. Each sale included a warrant to purchase an equal number of shares of restricted common stock at a price of $0.18 per share, exercisable for a period of three years following the date of investment. These securities were issued in a private placement that we believe qualified for the exemption form registration under Section 4(2) of the Securities Act of 1933 and the safe harbor provided thereunder pursuant to Rule 506 because the sales did not involve a public offering, were made without general solicitation, were made primarily to accredited investors (plus no more than 35 non-accredited investors), and were made upon delivery of a private placement memorandum satisfying the information requirements of Rule 502.

Name	Shares
Kristie B. Pederson Trust	555,556
Seattle Sacs, LLC	555,556
Enternet Development Corp.	444,444
James I. Lytton	150,000
Frona L. Toney	138,889
Michael Rodgers	138,889
Natalie Hastings O'Shea	138,889
Brooke B. Medicine Eagle	83,333
Alberto Villoldo	83,333
Mark Savage	50,000
Pie In The Sky, Inc.	32,778

- On or about March 14, 2005, we sold to Mercator Momentum Fund I, L.P., Mercator Momentum Fund III, L.P. and Mercator Advisory Group, LLC 30,000 shares of Preferred Stock and warrants to purchase 22,877,478 shares of common stock for a total offering price of $3 million. Each share of Preferred Stock entitles the holder to convert the share of Preferred Stock into the number of shares of common stock resulting from dividing $100 by the conversion price. The conversion price is 75% of the average of the lowest three intra-day trading prices for the Company's common stock during the 10 trading days immediately preceding the conversion date, but the conversion price may not exceed $0.1967. The number of shares of common stock subject to the warrants and the exercise price are subject to equitable adjustment in connection with a stock split, stock dividend or similar transaction. The warrants entitle the holder to purchase up to 22,877,478 shares of common stock of the Company on or before the third anniversary of the issuance date of the warrants at $0.1967 per share. The number of shares of common stock subject to the warrants and the exercise price are subject to equitable adjustment in connection with a stock split, stock dividend or similar transaction. In connection with this financing, we issued to a placement agent Ascendiant Securities, LLC warrants that entitle the holder to purchase up to 1,220,132 shares of common stock of the Company on or before the third anniversary of the issuance date of the warrants at $0.1967 per share.

- On or about October 18, 2004, we sold to Monarch Pointe Fund, Ltd. and Mercator Advisory Group, LLC 12,000 shares of Preferred Stock and warrants to purchase 4,575,496 shares of common stock for a total offering price of $1.2 million. Each share of Preferred Stock entitles the holder to convert the share of Preferred Stock into the number of shares of common stock resulting from dividing $100 by the conversion price. The conversion price is 85% of the average of the lowest three intra-day trading prices for the Company's common stock during the 10 trading days immediately preceding the conversion date, but the conversion price may not exceed $0.1967 or be lower than $0.05. The number of shares of common stock subject to the warrants and the exercise price are subject to equitable adjustment in connection with a stock split, stock dividend or similar transaction. The warrants entitle the holder to purchase up to 4,575,496 shares of common stock of the Company on or before the third anniversary of the issuance date of the warrants at $0.1967 per share. The number of shares of common stock subject to the warrants and the exercise price are subject to equitable adjustment in connection with a stock split, stock dividend or similar transaction. In connection with this financing, we issued to a placement agent, Ascendiant Securities, LLC and its affiliate Ascendiant Capital Group, LLC, 350,000 shares of restricted common stock and warrants that entitle the holder to purchase up to 488,052 shares of common stock of the Company on or before the third anniversary of the issuance date of the warrants at $0.1967 per share.

- On November 4, 2004, we sold the following number of shares of restricted common stock to the following investors for cash of $0.18 per share. Each sale included a warrant to purchase an equal number of shares of restricted common stock at a price of $0.18 per share, exercisable for a period of three years following the date of investment. These securities were issued in a private placement that we believe qualified for the exemption form registration under Section 4(2) of the Securities Act of 1933 and the safe harbor provided thereunder pursuant to Rule 506 because the sales did not involve a public offering, were made without general solicitation, were made primarily to accredited investors (plus no more than 35 non-accredited investors), and were made upon delivery of a private placement memorandum satisfying the information requirements of Rule 502.

Name	Shares
John Aksamit Foundation, Inc.	833,334
HIP Investments	555,567
Norman Cohn	555,556
Earl Kaplan	555,556
Neil Wood	305,000
Marty Kaplan	194,444
James B. Peek	138,889
Scott Smith	138,889
George E. Van, Jr.	138,889
Dietrich Klinghardt	138,889
Marcia D. Julian	138,889
Steven Lyons	138,889
Todd Seeholzer	138,889
Sound Current Wisdom	138,889
Blievernicht Trust	138,889
R. Arthur Jenkins	122,222
Lyman Jensen	101,000
Stephen Zahn	100,000
James Laufenberg	83,333
Richard Morrisey-Paine	77,778
Mary Lou Mellinger Trust	69,445
ABC Trust	69,444
Mark Savage	65,000
Isaac Shapiro	61,110
Farmilion Investments Ltd.	55,556
Alan Bolotin	50,000
Stephen Richardson	30,000

- On July 14, 2004, we sold 714,286 shares of restricted common stock to Scott Smith, M.D. for cash of $0.14 per share. These securities were issued in a private placement that we believe qualified for the exemption from registration under Section 4(2) of the Securities Act of 1933 and the safe harbor provided thereunder pursuant to Rule 506 because the sales did not involve a public offering and was made to an accredited investor.
- On June 18, 2004, we sold 2,272,727 shares of restricted common stock to John Aksamit Revocable Trust for cash of $0.11 per share. These securities were issued in a private placement that we believe qualified for the exemption from registration under Section 4(2) of the Securities Act of 1933 and the safe harbor provided thereunder pursuant to Rule 506 because the sales did not involve a public offering and was made to an accredited investor.
- On April 9, 2004, we sold the following number of shares of restricted common stock to the following investors for cash of $0.04 per share. These securities were issued in a private placement that we believe qualified for the exemption form registration under Section 4(2) of the Securities Act of 1933 and the safe harbor provided thereunder pursuant to Rule 506 because the sales did not involve a public offering, were made without general solicitation, were made primarily to accredited investors (plus no more than 35 non-accredited investors), and were made upon delivery of a private placement memorandum satisfying the information requirements of Rule 502.

Name	Shares
Robert Kenneth Yukes	500,000
Bruce O. Hoffman	250,000
Richard Frires	250,000
David Bolotin	250,000
Stephen J. Rogers	125,000
Stephen J. Rogers	175,000
Bob Palmer	750,000
Isaac Shapiro	175,000
Kenneth West	250,000
Richard John Morrisey Paine	250,000
Michael Gurevich	250,000
David Belz	250,000
Marie-Louise Knaupp	300,000
Janet R. Prado	250,000
Belle B. Wolkoff	250,000
Lynn Bruton	250,000
Pie In The Sky	250,000
Dennis Wilson	12,108
Shields Family Living Trust	125,000

- On January 26, 2004, we sold the following number of shares of restricted common stock to the following investors for cash of $0.04 per share. These securities were issued in a private placement that we believe qualified for the exemption form registration under Section 4(2) of the Securities Act of 1933 and the safe harbor provided thereunder pursuant to Rule 506 because the sales did not involve a public offering, were made without general solicitation, were made primarily to accredited investors (plus no more than 35 non-accredited investors), and were made upon delivery of a private placement memorandum satisfying the information requirements of Rule 502.

Name	Shares
Ross Durrant	150,000
Shu Na Wan	500,000

Martha Cooper Lang	1,250,000
Gary L. Perry	312,500
Larry S. Anderson	250,000
Suzanne M. Sommer	250,000
Alan L. Daniels	250,000
Dorin S. Daniels TR 1/15/93 Daniels Family	250,000
Shields Family Living Trust	250,000
Kenneth D. Perry	312,500
Mark Savage	650,000
Greg E. Groom	125,000
David Lewis	125,000
John Plocher	250,000
David R. Lucas	375,000
Institute of Facial Surgery St. Paul PR	250,000
Thomas D. Madison	1,250,000
Robin V. Smith	500,000
Vernon C. Mortensen	250,000
Micah J. Richins	250,000
R. Arthur Jenkins	362,500
Summit Insurance Planning, Inc.	250,000
Lyman Jensen	1,250,000
Kenneth A. Wolkoff	375,000
The Chris Sanders Trust	250,000
Charles E. Krpata	250,000
Micah J. Richins	250,000
Rulon N. Richins	250,000
Alan Bolotin	250,000
Gary R. Stone	125,000
Raymond C. Cooper	500,000
Brent W. Davis	375,000
Sharon M. Gillette & Associates Money Purchase Plan	1,700,000
Sharon M. Gillette IRA Rollover Plan	800,000
Dan Dwayne Pounds	250,000
Peter S. Levin	375,000
Stephen Peltier	250,000
H. Howard Wills	125,000
Louise B. Simmons Trust	250,000
Thomas Manning	125,000
Gary S. Kraftsow	250,000
Kelvin Buneman	125,000
H. Larry Spilker	125,000
Stephen F. Richardson	250,000
Stephen Zahn	250,000
Mary Lou Mellinger Trust	250,000

- During 2004 we issued an aggregate of 9,875,951 shares of common stock to Martha Cooper Lang, Nick Garnero and Richard W. Smith upon conversion of certain promissory notes with an aggregate outstanding principal and interest amount of $650,468.

- During 2004 we issued 1,189,465 shares of restricted common stock in lieu of cash finders' fees in connection with equity financings.

- On October 28, 2003, we sold the following number of shares of restricted common stock to the following investors for cash of $0.04 per share. These securities were issued in a private placement that we believe qualified for the exemption form registration under Section 4(2) of the Securities Act of 1933 and the safe harbor provided thereunder pursuant to Rule 506 because the sales did not involve a public offering, were made without general solicitation, were made primarily to accredited investors (plus no more than 35 non-accredited investors), and were made upon delivery of a private placement memorandum satisfying the information requirements of Rule 502.

Name	Share
Joseph S. Hood	300,000
Justin Y. Shimada	500,000
Ross Durrant	500,000
James Laufenberg	250,000
Gregory H. Von Gehr	250,000
Alan Chin	125,000
James B. Peek	250,000
David R. Lucas	300,000
David R. Lucas	150,000
David R. Walker	250,000
The Kurtz Family Trust	2,500,000
Lyman Jensen	1,250,000
Lyman Jensen	1,250,000
Lyman Jensen	250,000
Alan Sagatelyan	250,000

- $195,000 secured promissory note issued to James F. Haney dated February 20, 2003, bearing interest at the rate of 12%.
- $25,000 secured promissory note issued to Nadine Maughan Babick dated October 25, 2002, bearing interest at the rate of 15%, 12% of which is payable in cash and 3% of which is payable in common stock at a rate equal to the 15-day average market price determined at the date of maturity.
- $125,000 secured promissory note issued to James D. Pierce dated October 24, 2002, bearing interest at the rate of 15%, 12% of which is payable in cash and 3% of which is payable in common stock at a rate equal to the 15-day average market price determined at the date of maturity. This note has subsequently been retired.
- $50,000 secured promissory note issued to Venna M. Davis GST Trust dated October 24, 2002, bearing interest at the rate of 15%, 12% of which is payable in cash and 3% of which is payable in common stock at a rate equal to the 15-day average market price determined at the date of maturity.

Item 27. Exhibits

The following exhibits required by Item 601 of Regulation S-B promulgated under the Securities Act have been included with the Registration Statement as indicated below.

EXHIBIT INDEX

Exhibit No.	Exhibit
2.1	Sale and Purchase Agreement between Attorney Hinnerk-Joachim Müller as liquidator of Savetherapeutics AG i.L and Medical Discoveries, Inc. regarding the purchase of essential assets of Savetherapeutics AG i.L.*
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).
4.1	Certificate of Designations of Preferences and Rights of Series A Convertible Preferred Stock of Medical Discoveries, Inc.+
4.2	Amendment to Certificate of Designations of Preferences and Rights of Series A Convertible Preferred Stock of Medical Discoveries, Inc.+
4.3	Registration Rights Agreement dated October 18, 2004 among Monarch Pointe Fund, Ltd, Mercator Advisory Group, LLC and Medical Discoveries, Inc.+
4.4	Registration Rights Agreement dated December 3, 2004 among Mercator Momentum Fund, LP, Mercator Momentum Fund III, LP, Mercator Advisory Group, LLC and Medical Discoveries, Inc.+
5.1	Opinion of Epstein Becker & Green, P.C.**
10.1	2002 Stock Incentive Plan adopted by the Board of Directors as of July 11, 2002 (filed as Exhibit 10.5 to the Company's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2002, and incorporated herein by reference).
10.2	Subscription Agreement dated October 18, 2004 among Monarch Pointe Fund, Ltd., Mercator Advisory Group, LLC, and Medical Discoveries, Inc.+
10.3	Subscription Agreement dated December 3, 2004 among Mercator Momentum Fund, LP, Mercator Momentum Fund III, LP, Mercator Advisory Group, LLC, and Medical Discoveries, Inc.+
10.4	Employment Agreement dated March 1, 2005 between Medical Discoveries, Inc. and Judy M. Robinett.*
21	Subsidiaries*
23.1	Consent of Hansen, Barnett & Maxwell**
23.2	Consent Eide Bailly LLP**
23.3	Consent of Tanner & Co.**
23.4	Consent of Epstein Becker & Green, P.C.++

* Filed herewith

** To be filed by subsequent amendment prior to effectiveness.

\+ Previously filed

++ Included in Item 5.1

Item 28. Undertakings

The Registrant hereby undertakes:

(1) To file during any period in which offers or sales are being made, a post-effective amendment to this registration statement to:

(i) Include any prospectus required by Section 10(a)(3) of the Securities Act.

(ii) Reflect in the prospectus any facts or events that, individually or together, represent a fundamental change in the information. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) Include any additional or changed material information on the plan of distribution.

(2) That for determining liability under the Securities Act, to treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

(3) To file a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

SIGNATURES

In accordance with the requirements of the Securities Act, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this registration statement to be signed on its behalf by the undersigned, in Salt Lake City, Utah, on October 12, 2005.

Medical Discoveries, Inc.

By: /s/ Judy M. Robinett
Judy M. Robinett
President and Chief Executive Officer

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Judy M. Robinett his or her attorney-in-fact and agent, with full power of substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any or all amendments to this Registration Statement on Form SB-2, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection with this Registration Statement, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that any of said attorney-in-fact and agent, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with the requirements of the Securities Act, this registration Statement was signed by the following persons in the capacities and on the dates stated:

/s/ Judy M. Robinett Judy M. Robinett	President and Chief Executive Officer	October 12, 2005
/s/ Deirdra J. Burgess Deirdra J. Burgess	Controller	October 12, 2005
/s/ David R. Walker David R. Walker	Chairman of the Board of Directors	October 12, 2005
/s/ Larry Anderson Larry Anderson	Director	October 12, 2005

EXHIBIT INDEX

Exhibit No.	Exhibit
2.1	Sale and Purchase Agreement between Attorney Hinnerk-Joachim Müller as liquidator of Savetherapeutics AG i.L and Medical Discoveries, Inc. regarding the purchase of essential assets of Savetherapeutics AG i.L.*
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).
4.1	Certificate of Designations of Preferences and Rights of Series A Convertible Preferred Stock of Medical Discoveries, Inc.+
4.2	Amendment to Certificate of Designations of Preferences and Rights of Series A Convertible Preferred Stock of Medical Discoveries, Inc.+
4.3	Registration Rights Agreement dated October 18, 2004 among Monarch Pointe Fund, Ltd, Mercator Advisory Group, LLC and Medical Discoveries, Inc.+
4.4	Registration Rights Agreement dated December 3, 2004 among Mercator Momentum Fund, LP, Mercator Momentum Fund III, LP, Mercator Advisory Group, LLC and Medical Discoveries, Inc.+
5.1	Opinion of Epstein Becker & Green, P.C.**
10.1	2002 Stock Incentive Plan adopted by the Board of Directors as of July 11, 2002 (filed as Exhibit 10.5 to the Company's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2002, and incorporated herein by reference).
10.2	Subscription Agreement dated October 18, 2004 among Monarch Pointe Fund, Ltd., Mercator Advisory Group, LLC, and Medical Discoveries, Inc.+
10.3	Subscription Agreement dated December 3, 2004 among Mercator Momentum Fund, LP, Mercator Momentum Fund III, LP, Mercator Advisory Group, LLC, and Medical Discoveries, Inc.+
10.4	Employment Agreement dated March 1, 2005 between Medical Discoveries, Inc. and Judy M. Robinett.*
21	Subsidiaries*
23.1	Consent of Hansen, Barnett & Maxwell**
23.2	Consent Eide Bailly LLP**
23.3	Consent of Tanner & Co.**
23.4	Consent of Epstein Becker & Green, P.C.++

* Filed herewith

** To be filed by subsequent amendment prior to effectiveness.

\+ Previously filed

++ Included in Item 5.1

Exhibit 2.1

K A U F V E R T R A G

zwischen

RECHTSANWALT HINNERK-JOACHIM MULLER ALS INSOLVENZVERWALTER DER SAVETHERAPEUTICS AG i.L.

und

MEDICAL DISCOVERIES, INC.

betreffend

den Kauf von wesentlichen Vermogensgegenstanden der

SAVETHERAPEUTICS AG i.L.

/s/ Hinnerk J. Muller
/s/ JMR

1. Medical Discoveries, Inc., 1338 S. Foothill Drive, #266, Salt Lake City, Utah, USA

im folgenden: ,,KAUFERIN"

und

2. Rechtsanwalt Hinnerk-Joachim Muller als Insolvenzverwalter der Savetherapeutics AG i.L., Speersort 4-6, 20095 Hamburg, Deutschland

im folgenden: ,,VERKAUFER"

schlie(beta)en den nachfolgenden

K A U F V E R T R A G

I. PRAAMBEL

Die Savetherapeutics AG i.L. mit Sitz in Hamburg (HRB 80715), im Folgenden ,,SCHULDNERIN", betrieb die Entwicklung und Vermarktung von Therapeutika, Diagnostika und Kosmetika, insbesondere aber nicht ausschlie(beta)lich im Bereich Brustkrebs UNd anderen Indikationen. Mit Beschlu(beta) des Amtsgerichts Hamburg vom 14.01.2005 (Az.: 67e IN 294/04) ist uber das Vermogen DEr Schuldnerin am 14.01.2005, 9:57 Uhr, das Insolvenzverfahren eroffnet und der Verkaufer zum Insolvenzverwalter bestellt worden.

Die Kauferin ist an einer Ubernahme wesentlicher Vermogensgegenstande der Schuldnerin interessiert. Zu diesem Zweck sind Kauferin und Verkaufer in Verkaufsverhandlungen eingetreten. Die Kauferin hatte dem Verkaufer bereits ein Erwerbsangebot unterbreitet. Dieses stand in Abhangigkeit von einer mit den Gesellschaftern der Schuldnerin Prof. Dr. Heinrich Wieland und Dr. Alfred Schmidt abzuschlie(beta)enden Vergleichsvereinbarung. Diese Vereinbarung uber die Einbringung und Aufteilung der Schutzrechte (in kosmetische und nicht kosmetische Anwendungen), die Teil des Kaufgegenstandes sind, kam in der Folgezeit nicht zustande, so dass das ursprungliche Angebot der Kauferin erloschen ist. In Kenntnis dieses Umstandes und der Tatsache, dass die Herren Schmidt und Wieland weiterhin behaupten, Inhaber der Schutzrechte zu sein, beabsichtigt die Kauferin, nunmehr nicht nur

/s/ Hinnerk J. Muller
/s/ JMR

den nicht kosmetischen Anwendungsbereich der Schutzrechte, sondern diese insgesamt zu erwerben.

Dabei besteht Einigkeit unter den Parteien, da(beta) es sich um einen Kauf von Vermogensgegenstanden aus der Insolvenzmasse der Schuldnerin handelt. Daher sollen gegen den Verkaufer bzw. die Insolvenzmasse im Hinblick auf den Kaufgegenstand keinerlei Anspruche auf Gewahrleistung, Schadensersatz oder Ruckabwicklung bestehen.

II. KAUF VON BESTIMMTEN VERMOGENSGEGENSTANDEN DER FIRMA SAVETHERAPEUTICS AG i.L.

Der Verkaufer verkauft und ubertragt hiermit samtliche Vertrags-Erfindungen und Vertrags-Schutzrechte, die in den in Anlage 1 und Anlage 2 beigefugten Schutzrechtskaufvertragen definiert sind.

Verkauft und ubertragen werden daher insbesondere die in der Anlage 3 aufgefuhrten Vermogensgegenstande und Rechte (insgesamt der ,,KAUFGEGENSTAND"). Die Materialen und Unterlagen, die der Verkaufer im Besitz hat, sind der Kauferin unmittelbar nach Vertragsunterzeichnung zu ubergeben.

Soweit Vermogensgegenstande und/oder Rechte, welche die Schuldnerin hat, in den Anlagen 1, 2 und 3 nicht genannt werden, aber im Zusammenhang mit der gewerblichen Nutzung des Kaufgegenstandes erforderlich sind, werden auch diese mitverkauft und ubertragen. Sie sind Bestandteil des Kaufgegenstandes. Die Kauferin erwirbt ferner mit dem Kaufgegenstand in Zusammenhang stehendes Know-how sowie alle Materialien, Unterlagen, die im Zusammenhang mit klinischen Studien und Zulassungsverfahren stehen, soweit die Schuldnerin sie in unmittelbarem Besitz hat.

Der Verkaufer verkauft und ubertragt hiermit den Kaufgegenstand und die damit in Zusammenhang stehenden Vermogensrechte an die Kauferin.

Die Kauferin nimmt hiermit den Verkauf und die Ubertragung des Kaufgegenstandes und der damit in Zusammenhang stehenden Vermogensrechte an.

Im Ubrigen werden keine Vermogensgegenstande oder Verbindlichkeiten der Schuldnerin auf die Kauferin ubertragen. Die Kauferin ubernimmt auch keinerlei Verpflichtungen oder Haftungen der Schuldnerin oder des Verkaufers.

/s/ Hinnerk J. Muller
/s/ JMR

III. AUSSCHLU(beta) DER GEWAHRLEISTUNG / FESTSTELLUNG DES EIGENTUMS

Der Verkaufer sichert der Kauferin zu, da(beta) er zum Abschlu(beta) eines Vertrages der vorliegenden Art formell berechtigt ist.

Im Rahmen einer beschrankten, vorvertraglichen Due Diligence hat die Schuldnerin der Kauferin in der Zeit vom 6. Dezember 2004 bis 28. Januar 2005 ausgesuchte zur Evaluierung bestimmter Aspekte des Kaufgegenstandes erforderliche sowie die von der Kauferin angeforderten Unterlagen zur Verfugung gestellt.

Deshalb, und im Hinblick auf die Insolvenz der Schuldnerin, schlie(beta)en die Vertragsparteien im Rahmen des gesetzlich Zulassigen jegliche Gewahrleistung aus diesem Vertrag oder im Zusammenhang damit aus, soweit in diesem Absatz nichts Abweichendes geregelt ist. Daneben sind sich die Vertragsparteien daruber einig, da(beta) auch im Ubrigen keine sonstigen Anspruche aus jedwedem Rechtsgrund, insbesondere Anspruche auf Schadensersatz, Schadloshaltung und/oder Rucktritt vom Vertrag, gegen den Verkaufer bestehen.

Der Verkaufer hat die Kauferin daruber informiert, da(beta) die Gesellschafter der Schuldnerin, Herr Dr. Alfred Schmidt und Herr Prof. Heinrich Wieland, ihren sich aus Section 8 des Beteiligungsvertrages vom 9. November 2000 sowie der in den Schutzrechtkaufvertragen (Anlage 1 und Anlage 2 zu diesem Vertrag) ergebenden Verpflichtungen zur Einlage der in den Schutzrechtskaufvertragen genannten Patente in die Schuldnerin widersprechen. Sie vertreten die Auffassung, die Schutzrechte stunden nach wie vor ihnen zur personlichen Nutzung zu.

Der Verkaufer hat die Kauferin daruber hinaus davon unterrichtet, da(beta) eine Umschreibung der Patente bei den relevanten Patentamtern tatsachlich nicht stattgefunden hat, d.h. bei den Patentamtern die Herren Schmidt/Wieland nach wie vor als Patentinhaber der kaufgegenstandlichen Patente gefuhrt werden.

DIE KAUFERIN ERKLART IN VOLLER KENNTNIS UND WURDIGUNG DIESES SACHVERHALTES FOLGENDES:

Die Kauferin tragt, das Risiko, dass der Einbringung der kaufgegenstandlichen Patente und des Know-hows durch die Herren Schmidt/Wieland widersprochen wird.

Die Kauferin beabsichtigt, mit den Herrn Schmidt/Wieland nochmals eine einvernehmliche Losung uber die Inhaberschaft der Schutzrechte herbeizufuhren.

/s/ Hinnerk J. Muller
/s/ JMR

Sollte dies innerhalb einer angemessenen Frist nach Abschlu(beta) dieses Vertrages nicht moglich sein, wird die Kauferin alle notwendigen Handlungen zur Klarung der Rechtssituation, insbesondere die notigenfalls gerichtliche Feststellung, da(beta) die Patente in die Schuldnerin eingebracht bzw. auf die Kauferin ubertragen wurden, in Eigenverantwortung und auf eigene Kosten durchfuhren. Dies schlie(beta)t auch die Kosten eines etwaigen Rechtsstreites mit ein, welchen die Equicore Beteiligungs GmbH fur die Kauferin als deren Proze(beta)standschafterin fuhrt.

Der Verkaufer versichert im Gegenzuge, da(beta) er sich nach Kraften bemuhen wird, mit der Equicore Beteiligungs GmbH eine Vereinbarung zu treffen, wonach diese die Kauferin bei der Durchsetzung dieses Anspruches auf Einbringung der Patente in die Schuldnerin umfassend, insbesondere auch durch Uberlassung von Unterlagen und, soweit gesetzlich zulassig, durch Abtretung der Anspruche auf Einbringung der kaufgegenstandlichen Patente oder im Wege der Proze(beta)standschaft oder vergleichbarer Weise unterstutzen wird.

Diese Vereinbarung mit Equicore Beteiligungs GmbH ist binnen 60 Tagen nach Unterzeichnung dieses Vertrages abzuschlie(beta)en; andernfalls sind die Parteien zum Rucktritt vom Vertrag berechtigt.

Das von der Equicore Beteiligungs GmbH eingeforderte Mitwirkungsentgelt von 3 % auf den gezahlten Kaufpreis wird von dem Verkaufer getragen.

Sollte die Equicore Beteiligungs GmbH fur die Vorbereitung der Prozessfuhrung zugunsten der Kauferin ein Stundenhonorar ((euro) 250 pro Stunde) beanspruchen, so tragen die Parteien dies jeweils zur Halfte, jedoch bis insgesamt maximal (euro) 10.000.

Die Kauferin erklart weiterhin, da(beta) sie fur den Fall, da(beta) die Einbringung der Patente durch die Herren Schmidt/Wieland in die Kauferin nicht rechtskraftig festgestellt werden kann, keinerlei rechtliche Anspruche gegen den Verkaufer geltend machen wird. Sie tragt insoweit dieses Risiko alleine.

Der Kauferin ist bekannt, dass der Verkaufer uber die der Kauferin zur Verfugung gestellten Unterlagen hinaus keine Kenntnis von und keine Einflussmoglichkeit auf etwaige sonstigen Handlungen der Herren Schmidt/Wieland hat, die zwischenzeitlich vorgenommen wurden oder bis zur rechtskraftigen Feststellung des Eigentumserwerbes durch die Kauferin und die Umschreibung der Patente vorgenommen werden. Die Kauferin verzichtet hiermit auf etwaige ihr insoweit zustehenden Anspruche gegen den Verkaufer, auch soweit die Anspruche aus

/s/ Hinnerk J. Muller
/s/ JMR

Handlungen herruhren, die den Bestand, die Inhaberschaft und die Lastenfreiheit der Patente betroffen haben.

IV. KAUFPREIS, ZAHLUNGSBEDINGUNGEN

Der Kaufpreis fur den Kaufgegenstand betragt (euro) 2.350.000 (in Worten: Euro zwei Millionen dreihundertfunfzigtausend).

Soweit erforderlich stellt der Verkaufer der Kauferin eine Rechung entsprechend den gesetzlichen Vorschriften aus und quittiert den Erhalt des Kaufpreises.

Der Kaufpreises wird nach Ma(beta)gabe der nachfolgenden Bestimmungen fallig:

Ein Teilkaufpreis in Hohe von (euro) 500.000 (in Worten: Euro funfhunderttausend) ist mit der Unterzeichnung dieses Kaufvertrages fallig und binnen 10 Tagen auf das unten genannte Konto des Verkaufers zu zahlen:

Bank:	HSH Nordbank AG
Konto Nr.:	1000 024 670
BLZ:	210 500 00
Inhaber:	RA Hinnerk-Joachim Muller wg. Savetherapeutics AG

Sofern diese Verpflichtung nicht fristgerecht erfullt wird, ist der Verkaufer zum Vertragsrucktritt berechtigt. Das Rucktrittsrecht erlischt binnen zwei Wochen nach Vorliegen des Rucktrittsgrundes. Keine Partei kann gegen die andere im Rucktrittsfall Rechte/Anspruche, gleich welcher Art, wegen des Rucktritts geltend machen.

Der zweite Teilkaufpreis in Hohe von (euro) 500.000 (in Worten: Euro funfhunderttausend) ist zu erbringen, sobald die in Ziffer III

beschriebene Feststellung uber die Einbringung der Patente in die Kauferin entweder im Wege eines Vergleiches mit den Herren Schmidt/Wieland oder aber durch ein rechtskraftiges Urteil eines deutschen Gerichtes festgestellt wurde.

Der dritte Teilkaufpreis in Hohe von (euro) 1.350.000 (in Worten: Euro eine Million dreihundertfunfzigtausend) wird bei erfolgreicher Kommerzialisierung des Kaufgegenstandes fallig, d.h. sobald die Kauferin in Form einer Lizenzierung oder eines Produktverkaufs

/s/ Hinnerk J. Muller
/s/ JMR

Umsatz in Hohe von mindestens (euro) 1.350.000 (in Worten: Euro eine Million dreihundertfunfzigtausend) erzielt hat.

Die Kosten der Transaktion, insbesondere Kosten angefallener Rechtsberatung durch die Sozietat Mayer, Brown, Rowe & Maw LLP, tragt die Kauferin bis zu einem Betrag von (euro) 80.000,00.

V. RUCKTRITTSRECHT DES VERKAUFERS

Die Kauferin verpflichtet sich, gegenuber dem Verkaufer binnen einer Frist von 9 Monaten nach der in Ziffer III beschriebenen Feststellung der Einbringung des Kaufgegenstandes in die Schuldnerin durch Vergleich oder rechtskraftiges Gerichtsurteil in angemessener und nachprufbarer Weise gegenuber dem Verkaufer zu belegen, da(beta) sie uber die fur eine Kommerzialisierung des Kaufgegenstandes notwendigen finanziellen Mittel verfugt und den auf die Kommerzialisierung zielenden Weiterentwicklungsprozess begonnen hat. Fur den Fall, da(beta) die Kauferin diesen Nachweis nicht fristgerecht fuhrt, ist der Verkaufe berechtigt, vom Vertrag zuruckzutreten. Im Rucktrittsfall hat die Kauferin keinen Anspruch auf Ruckzahlung bis dato geleisteter Teilkaufpreiszahlungen.

VI. VERSCHIEDENES

Die Vertragsparteien sind nicht berechtigt, Rechte aus diesem Vertrag oder Anspruche gegen die andere Partei oder andere Parteien an Dritte abzutreten. Sofern die Kauferin die Ubertragung des Kaufvertrages auf eine Zweckgesellschaft oder ein verbundenes Unternehmen beabsichtigt, so wird der Verkaufer seine Zustimmung nur aus wichtigem Grund verweigern. Der Verkaufer ist dabei berechtigt, seine Zustimmung davon abhangig zu machen, da(beta) die Kauferin dem Verkaufer die Zahlung offenen Kaufpreises unter Verzicht auf Aufrechnung/Zuruckhaltung garantiert. Nach Entrichtung des vollstandigen Kaufpreises kann die Kauferin frei uber den Kaufgegenstand verfugen.

Das Recht der Kauferin zur Aufrechnung gegen den Kaufpreisanspruch des Verkaufers ist ausgeschlossen. Uber die in Ziffer IV. vorgesehenen Auszahlungsbedingungen hinaus steht der Kauferin kein Zuruckbehaltungsrecht zu.

/s/ Hinnerk J. Muller
/s/ JMR

Anderungen und Erganzungen dieses Vertrages, einschlie(beta)lich der Anderung dieser Klausel, bedurfen der Schriftform, um gultig zu sein, sofern keine notarielle Beurkundung gesetzlich erforderlich ist.

Sollten einzelne oder mehrere Bestimmungen dieses Vertrages unwirksam, unvollstreckbar, nichtig oder gesetzwidrig sein oder werden, so soll hierdurch die Gultigkeit der ubrigen Bestimmungen nicht beruhrt werden. Anstelle einer solchen unwirksamen, unvollstreckbaren, nichtigen oder gesetzwidrigen Bestimmung gilt zwischen den Parteien eine derartige wirksame, vollstreckbare und gesetzliche Bestimmung als vereinbart, die, sofern die Parteien nichts anderes bestimmen, so weit wie moglich denselben wirtschaftlichen Zweck erfullt wie die unwirksame, unvollstreckbare, nichtige oder gesetzwidrige Bestimmung. Dasselbe gilt entsprechend fur Vertragslucken.

Dieser Vertrag unterliegt dem Recht der Bundesrepublik Deutschland mit Ausnahme des deutschen internationalen Privatrechts sowie unter Ausschlu(beta) der Bestimmungen des UN-Kaufrechts.

Sofern Widerspruche zwischen der ma(beta)geblichen deutschen Fassung dieses Vertrages und der unverbindlichen englischen Ubersetzung bestehen, so geht die deutsche Fassung der englischen Fassung vor.

_____, den 11.03.2005

/s/ Judy M. Robinett
- -------------------------
Medical Discoveries, Inc., vertreten durch ihren CEO Frau Judy Robinett

_____, den 11.03.2005

/s/ Hinnerk J. Muller
- -------------------------
Herr Rechtsanwalt Hinnerk-Joachim Muller als Insolvenzverwalter der
Savetherapeutics AG i.L.

/s/ Hinnerk J. Muller
/s/ JMR

CONVENIENCE TRANSLATION

SALE AND PURCHASE AGREEMENT

between

ATTORNEY HINNERK-JOACHIM MULLER AS LIQUIDATOR OF SAVETHERAPEUTICS AG i.L.

and

MEDICAL DISCOVERIES INC.

regarding

the purchase of the essential assets of

SAVETHERAPEUTICS AG i.L.

CONVENIENCE TRANSLATION

1. Medical Discoveries Inc., 1338 S. Foothill Drive, # 266, Salt Lake City, Utah, USA

hereafter: "BUYER"

and

2. Attorney Hinnerk-Joachim Mueller as liquidator of Savetherapeutics AG i.L.,Speersort 4-6, 20095 Hamburg

hereafter: "SELLER"

enter into the following

SALE AND PURCHASE AGREEMENT

I. PREAMBLE

Savetherapeutics AG i.L., with registered seat in Hamburg (HR B 80 175), hereafter "THE OBLIGOR" carried on the development and marketing of therapeutics, diagnostics and cosmetics, in particular, however not exclusively, in the field of breast cancer and other indications. Following the decision of the Local Court in Hamburg (ref.: 67e IN 294/04) dated January 14, 2005 insolvency proceedings have been opened over the assets of the Obligor as of January 14, 2005, 9:57 a.m. and Seller has been appointed as Liquidator.

Buyer is interested in taking over essential assets of Seller. Buyer and Seller have entered into negotiations for this purpose. Buyer already submitted an offer which depended on the conclusion of a settlement agreement between the shareholders of the Obligor Prof. Dr. Heinrich Wieland and Dr. Alfred Schmidt. This agreement was intended to define the split (into cosmetic and non-cosmetic use) of the patents (Schutzrechte) being part of the

CONVENIENCE TRANSLATION

object of purchase, but was not concluded between the parties concerned; therefore the offer has expired. Being fully aware of these circumstances as well as the fact that Mr. Schmidt and Mr. Wieland still claim to be the owner of the patents, Buyer now intends to purchase the patents entirely and not only the part relating to the non-cosmetic use of such patents.

The parties agree that this agreement relates to a purchase of assets from the insolvency assets (Insolvenzmasse) of Obligor. Therefore all warranty or damage claims as well as claims relating to reversed transactions (Ruckabwicklung) against Seller or the insolvency assets (Insolvenzmasse) with regard to the object of purchase shall be barred.

CONVENIENCE TRANSLATION

II. PURCHASE OF CERTAIN ASSETS

OF THE COMPANY SAVETHERAPEUTICS AG i. L.

Seller hereby sells and assigns all inventions (Vertrags-Erfindungen) and patents (Vertrags-Schutzrechte) as defined in the IP Purchase Agreements attached hereto as Annex 1 and Annex 2.

In particular Seller hereby sells and assigns all assets and rights listed in Annex 3 (hereafter altogether referred to as "OBJECT OF PURCHASE"). Seller shall hand over to Buyer any information and documentation to the extent they are in the possession of the Seller immediately after signing of this agreement.

Assets and rights not mentioned in Annex 1, 2 and 3 which are however necessary in connection with the commercial use of the Object of Purchase are herewith sold and transferred and form part of the Object of Purchase. In connection with the assignment of the Object of Purchase Seller sells and transfers, including but not limited to, associated know-how and all documents relating to clinical studies and marketing authorization procedures (Zulassungsverfahren), to the extent they are in the possession of Seller.

Seller herewith sells and transfers to Buyer the Object of Purchase including the assignment of all associated rights.

Buyer herewith accepts such sale and transfer of the Object of Purchase including the assignment of the associated rights.

NO OTHER ASSETS OR OBLIGATIONS OF OBLIGOR ARE TRANSFERRED TO BUYER. THE BUYER DOES NOT ASSUME ANY OBLIGATION OR LIABILITY OF THE OBLIGOR OR THE SELLER.

III. EXCLUSION OF WARRANTY CLAIMS / ALLOCATION OF PROPERTY

The Seller warrants that he is formally entitled to enter into any contract of the kind of this agreement.

CONVENIENCE TRANSLATION

During a limited pre-contractual Due Diligence from December 6, 2004 to January 28, 2005 Obligor has made available to Buyer selected documents necessary for evaluating the Object of Purchase as well as the documents requested by Buyer.

Therefore, and with regard to the insolvency of the Obligor the parties herewith exclude, as far as legally possible, all warranty claims (Gewahrleistung) arising out of or in connection with this sale and purchase agreement unless stated otherwise in this paragraph. In addition, the parties agree that no other claims shall exist against Seller for any legal reason, in particular claims for damages (Schadenersatz), indemnification (Schadloshaltung) and/or the right to withdraw from the contract (Rucktritt).

Seller informed Buyer about the fact that the Obligor's shareholders Dr. Alfred Schmidt and Prof. Dr. Wieland deny their obligations arising out of Section 8 of the Investment Agreement, dated November 9, 2005 and the IP Purchase Agreements (attached hereto as Annex 1 and Annex 2) to contribute and assign the patents mentioned in the IP Purchase Agreements to the Obligor. They argue that they still have the right to dispose of the patents.

Furthermore Seller disclosed to Buyer that the re-registration of the patents with the patent offices concerned has not occurred, i.e. Schmidt/Wieland are still registered as patent owners with the patent offices with regard to the patents being part of the object of purchase.

Being fully aware of these circumstances and after considering the underlying facts the Buyer declares the following:

The Buyer takes the risk that Schmidt/Wieland will object to the contribution and assignment of the patents concerned and the respective know-how.

The Buyer is willing to take the effort to come to an amical solution with Messrs. Schmidt/Wieland regarding the ownership of the patents.

If such effort should fail within an appropriate time frame after entering into this agreement, Buyer will take all necessary steps on its own responsibility and bearing all costs, to clarify the legal situation, including to allow the determination of the contribution of the patents to the Obligor respectively the transfer of the patents to the Buyer by a competent court. This

includes the expenses of a possible law suit conducted by Equicore Beteiligungs GmbH for the benefit of the Buyer as representative action (Prozessstandschaft).

In considering this, Seller affirms that he will use reasonable efforts (nach Kraeften bemuehen) to enter into an agreement with Equicore Beteiligungs GmbH, which will obligate the company to extensively support the Buyer in pursuing its claim for contribution and assignment of the patens, including, but not limited to, the submission of documents and as far as legally permissible the transfer of claims relating to the contribution of the patents being part of the object of purchase, by representative action (Prozessstandschaft) or in a comparable way.

The agreement with Euqicore Beteiligungs GmbH shall be concluded within 60 days after signing of this agreement; otherwise the parties are entitled to rescind this agreement.

The compensation payment (Mitwirkungsentgelt) in the amount of 3 % of the purchase price which Equicore Beteiligungs GmbH requests shall be borne by the Seller.

In case Equicore Beteiligungs GmbH claims a payment for the preparation of the legal proceedings for the benefit of the Buyer based on hourly rates (Euro 250), both parties shall bear such costs in equal shares up to a total maximum of Euro 10,000.

The Buyer declares that he will not assert any claims against the Seller, if the contribution of the patents to Buyer by Schmidt/Wieland cannot become final and legally binding. Buyer alone shall bear the entire economic risk.

The Buyer is aware of the fact that in addition to the documents made available to the Buyer, Seller has neither knowledge nor the capabilities to influence on Schmidt/Wieland regarding any measures already taken or to be taken by them until the final and binding decision determining the ownership of the patents and the re-registration of the patents. Buyer herewith waives all rights against Seller which might arise in connection therewith, even if such claims relate to acts which affect the existence, ownership or third party rights (Lastenfreiheit) of the patents.

IV. PURCHASE PRICE, TERMS OF PAYMENT

The purchase price for the Object of Purchase amounts to (euro) 2,350,000 (in words: Euro two million and three hundred fifty thousand).

Insofar as necessary Seller shall issue to Buyer an invoice in accordance with the legal regulations and shall confirm the receipt of the purchase price.

The purchase price is due and payable in accordance with the following provisions:

A FIRST INSTALMENT IN THE AMOUNT OF (euro) 500,000 (IN WORDS: EURO FIVE HUNDRED THOUSAND) IS DUE AND PAYABLE UPON SIGNING OF THIS AGREEMENT AND HAS TO BE PAID WITHIN A PERIOD OF 10 (TEN) DAYS TO THE ACCOUNT OF THE SELLER:

Bank:	HSH Nordbank AG
Account no:	1000 024 670
Banking Code:	210 500 00
Reference:	Attorney Hinnerk-Joachim Muller re. Savetherapeutics AG

If such obligation is not complied with, then each party shall have the right to rescind from the agreement within two weeks after such non compliance becomes public. All further claims for damages or other remedies are excluded by this right to rescind.

The second instalment in the amount of (euro) 500,000 (in words: Euro five hundred thousand) shall be due and payable upon the final and legally binding determination of the contribution of the patents to the Buyer either by a settlement agreement to be entered into with Schmidt/Wieland or by a final and binding decision of a German court.

The third instalment in the amount of (euro) 1,350,000 (in words: Euro one million three hundred and fifty thousand) will be due and payable upon successful commercialisation of the object of purchase, i.e. as soon as the Buyer receives revenues in the amount of at least (euro) 1,350,000

(in words: Euro one million three hundred and fifty thousand) either via

licensing or a sale of products.

The costs of the transaction, in particular fees of Mayer, Brown, Rowe & Maw LLP, shall be borne by the Buyer up to a maximum of Euro 80,000.

V. SELLER'S RIGHT TO RESCIND

The Buyer is obligated to provide evidence to the Seller in an appropriate and verifiable way within 9 months after the final and binding determination of the contribution of the patents to the Obligor's assets either by settlement or court decision, that Buyer has secured sufficient financial capacities to allow for a successful commercialisation of the Object of Purchase and that he has initiated development activities aiming at such commercialization.

The Seller shall be entitled to rescind this agreement, if Buyer is unable to provide such evidence in due time. In this case the Buyer shall not be entitled to the repayment of any partial purchase price payment made to that date.

VI. MISCELLANEOUS

The parties are not entitled to assign rights under this contract or claims against the other party or other parties of this agreement to third parties. Insofar as Buyer intends to assign this sale and purchase agreement to a special purpose vehicle or an affiliated company, Seller shall deny its consent only for good cause (aus wichtigem Grund). As long as the purchase price has not been paid Seller shall be entitled to request the submission of a guarantee of Buyer with regard to payment of the remaining purchase price prior to granting the approval which shall include a waiver of Buyer's rights for set off (Aufrechungsrecht) or retention (Zurueckbehaltungsrecht). Buyer shall be free in its decision to dispose of the Object of Purchase after payment of the purchase price.

CONVENIENCE TRANSLATION

Buyer's right to set-off (Aufrechnung) any claims against Seller's claim for payment of the purchase price is herewith excluded. Buyer shall have no rights of retention (Zuruckbehaltungsrecht) other than those set forth in clause IV. above.

Any changes and amendments to this contract, including any amendments to this written form requirement must be made in writing in order to be valid unless a notarization is required by law.

Should individual or several provisions of this contract be or become invalid, unenforceable, null and void or illegal this shall have no effect on the validity of the remaining provisions. The parties shall agree upon a valid, enforceable and legal provision to replace the invalid, unenforceable, null and void or illegal provision which shall insofar as not otherwise determined by the parties as far as possible satisfy the same commercial intention as the invalid, unenforceable, null and void or illegal provision. The same shall apply accordingly for a gap in the contract.

This contract is subject to the laws of the Federal Republic of Germany with the exception of German international private law and the UN Convention on Contracts for the International Sale of Goods.

In case of discrepancies between the binding German version and this convenience translation the German version shall prevail.

_____, this __ day of _____2005

Medical Discoveries Inc, represented by the managing director Judy Robinett

_____

Attorney Hinnerk-Joachim Muller as liquidator of Savetherapeutics AG i.L.

EMPLOYMENT AGREEMENT

This Employment Agreement ("AGREEMENT"), dated as of April 1, 2005 ("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. Executive shall continue to be employed by MDI as President and Chief Executive Officer. Executive and MDI acknowledge that either party may terminate this Agreement and the employment relationship at any time and for any or no reason, upon six months' written notice to the other, subject to the obligations of MDI specified in Section 5 of 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 (the "Board") shall reasonably direct and are consistent with the duties normally associated 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 performance of her duties. Executive shall not be prevented by this Section 1.3 from engaging in any civic, charitable or humanitarian pursuits that do not interfere or conflict with the performance of her duties hereunder.

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) 24 months following a Change of Control as defined in Section 5.4 below.

3. SALARY AND ANNUAL BONUS. MDI will pay Executive (i) an annual salary of $350,000, plus (ii) annual bonus payments. The Board shall adopt a formal annual bonus plan (the "Plan") no later than one month following the Effective Date that will provide for the payment of an annual cash bonus to be paid to Executive during the Term, based upon the achievement of financial, operational and managerial goals mutually agreed to by Executive and the Board (the "Bonus"). Such objectives will be weighted according to their importance. Objectives and weightings may be revised by mutual consent of Executive and the Board during the Term if warranted by changes in economic conditions, accounting regulations or other unforeseen circumstances. Upon successful achievement of the agreed upon goals, the Bonus will equal a defined percentage of Executive's then-current salary. Initially, the Plan shall consist of the

objectives and weightings set forth in Exhibit A, which is attached hereto and incorporated by reference herein.

The level of Executive's performance will be measured by the Board based on a thorough review of Executive's performance vis-a-vis the established objectives, taking into consideration extraordinary events that may have either positively or negatively impacted on the Executive's ability to achieve such objectives. The Bonus will be paid no later than 30 days following each anniversary of the Effective Date during the Term.

4. OTHER BENEFITS.

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

4.2 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 during the Term.

4.3 EXPENSES. MDI will reimburse Executive in accordance with company policies and procedures for reasonable expenses (including travel expenses, including business class for all business-related international travel) necessarily incurred in the performance of duties hereunder against appropriate receipts and vouchers indicating the specific business purpose for each such expenditure. In addition, upon request by Executive, MDI shall provide Executive

with a credit card, cellular phone and a monthly calling plan of Executive's choosing.

4.4 VEHICLE. Upon request by Executive when MDI's operating budget permits, MDI shall provide Executive with the use of a company-owned vehicle that will be replaced every two years during the Term.

4.5 MISCELLANEOUS ADDITIONAL BENEFITS. MDI will provide Executive with the following additional benefits during the Term:

(a) reimbursement for professional association membership (initiation and annual) fees; conference attendance and licensing fees related to the maintenance of Executive's professional status;

(b) membership in two airline clubs;

(c) reimbursement for financial counseling and annual income tax preparation, not to exceed $2,500 per year; and

(d) payments of legal fees associated with the drafting and negotiation of this Agreement, not to exceed $8,500.

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 or upon the expiration and non-renewal of the Term for any reason other than Cause (as defined in Section 5.4(b)), death, or Disability (as defined in Section 5.4(d)), including but not limited to Executive's resignation for Good Reason, 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 salary 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 (the "Severance Pay"). MDI shall pay Executive the Severance Pay 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. MDI also shall pay Executive her base salary and a pro rata portion of the Bonus through the date of termination. MDI shall notify Executive of the termination of Executive's employment as required by Section 1.1, provided that MDI may elect to pay Executive her then-current annual salary and pro rata Bonus and provide benefits in lieu of all or any portion of such six-month notice period.

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 and a pro rata portion of the Bonus 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 subsidiary of MDI) from those currently held or assigned. Termination of Executive's Employment also shall include termination by resignation of Executive for any reason, within 12

months of a Change of Control as defined in Section 5.4(c) below or for "Good Reason" which for purposes of this Agreement shall mean:

(i) the assignment to Executive of a different title, job or responsibilities that results in a decrease in the level of responsibility of Executive;

(ii) a reduction in Executive's annual salary or Bonus potential under the Plan;

(iii) a significant reduction in total benefits available to

Executive under cash incentive, stock incentive and other employee benefit plans; or

(iv) a requirement that Executive be based more than 50 miles from where Executive's office is currently located, except for required travel on company business.

(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) which failure is not corrected within 30 days after a written demand for substantial performance is delivered to Executive by the Board, which demand specifically identifies the manner in which the Board believes that Executive has not substantially performed Executive's duties and the actions it wants her to take to correct such failure; (ii) the conviction of Executive for a felony or misdemeanor involving moral turpitude or financial wrongdoing which has or reasonably could have a negative effect on the business of MDI or on its reputation in the business community; or (iii) the willful engaging by Executive of illegal or fraudulent conduct that 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 Executive's reasonable belief that her 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 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, 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 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's, 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. Disability shall mean Executive's inability to perform the primary duties of her position with MDI for a period of 90 consecutive days in any rolling 12-month period during the Term as a result of Executive's incapacity due to physical or mental illness.

5.5 SUSPENSION PENDING INVESTIGATION. MDI may suspend Executive with pay and benefits (not including Bonus) in the event Executive is charged by a law enforcement authority with a felony or misdemeanor involving moral turpitude or financial wrongdoing. In the event of Executive's conviction, MDI may terminate Executive for Cause pursuant to Section 5.4(b)(ii) The effective date of such termination for Cause shall be the date of Executive's suspension, and Executive shall repay MDI an amount equal to the salary she was paid during her suspension. In the event Executive is not convicted, MDI shall immediately reinstate Executive and pay her a pro rata portion of any Bonus and any other payment or benefit to which she would have been entitled had it not been for her suspension. Alternatively, Executive may elect to resign in lieu of accepting

reinstatement, in which case her resignation will be considered for Good Reason (as defined in Section 5.4(a)), and she shall be eligible for Severance Pay (as defined in Section 5.1),

5.6 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 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"), 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 5.6 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 by Executive or Executive's agent of this Agreement; (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 in the performance of her duties or 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 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 Executive will not during the Term 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, regardless of whether patentable, or 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 to the Business, including, without limitation, research and product development, and projected business of MDI. 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.

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 and for six months thereafter, all Inventions developed during the Term or within six months following Executive's termination of employment (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.

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

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 or 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 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. The arbitrator's fees will be split evenly by MDI and Executive.

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 to reveal the terms of this Agreement to any future employer or potential employer of Executive and authorizes MDI, to make such disclosure in the event she does not.

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. 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, and MDI agrees to require any successor or assign to assume this Agreement and all of MDI's obligations hereunder.

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 1338 S. Foothill Dr., #266, Salt Lake City, UT 84108 or to MDI at 30103 W. Gwinn 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 either 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 waiver of a breach of any provision of this Agreement operate or be construe 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 Utah without regard to the conflict of laws provisions of any other jurisdiction. Any lawsuit, claim or other legal proceeding involving this Agreement must be brought exclusively in the federal or state courts servicing Salt Lake County, Utah, and MDI and Executive hereby submit to personal jurisdiction in the State of Utah and to venue in such courts.

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

EXHIBIT A
BONUS PLAN

<TABLE>
<CAPTION>

Objective	Bonus (as percentage of Executive's salary as of the date of payment)
<S>	<C>
Enter Phase I clinical trials on MDI-P or any other drug that MDI acquires (such as SaveCream) in any indication	15% per indication
Enter Phase II clinical trials on MDI-P or any other drug that MDI acquires (such as SaveCream) in any indication	15% per indication

Enter Phase III clinical trials on MDI-P or any other drug that MDI acquires (such as SaveCream) in any indication	15% per indication
File an IND with the FDA on MDI-P for HIV	15%
File an IND with the FDA on MDI-P or any other drug that MDI acquires (such as SaveCream) in any indication	15% per indication
Complete an acquisition of another company or technology for an aggregate purchase price in excess of $1 million	15% per acquisition
Launch and appropriately capitalize (with no less than $1 million) an operating subsidiary of MDI intended to exploit specific opportunities identified by the company from time-to-time (e.g. Animal Health GmbH)	15% per subsidiary
Commercialize an asset of MDI in a transaction that generates cash paid to MDI of $1 million or more in the aggregate	15% per qualifying transaction

</TABLE>

Exhibit 21

SUBSIDIARIES OF MEDICAL DISCOVERIES, INC.

MDI Oncology, Inc., a Delaware Corporation

[EPSTEIN BECKER & GREEN, P.C. LETTERHEAD]

October 12, 2005

VIA EDGAR

Jeffery P. Riedler
United States Securities and Exchange Commission
Division of Corporation Finance
450 Fifth Street, N.W.
Mail Stop 0309
Washington, D.C. 20549-0306

Re: Medical Discoveries, Inc.
Amendment No. 2 to Form SB-2 Registration Statement
File No. 333-121635

Dear Mr. Riedler:

We are writing on behalf of our client, Medical Discoveries, Inc. (the "Company"), in response to the letter of comments from the United States Securities and Exchange Commission (the "Commission") to the Company, dated June 30, 2005, with respect to the Company's Amendment No. 2 to Form SB-2, File No. 333-121635 (the "Registration Statement"). The Company is filing concurrently herewith via EDGAR a third amendment to the Registration Statement in response to the letter of comments. The numbered paragraphs below restate the numbered paragraphs in the Commission's letter of comments to the Company, and the discussion set out below each such paragraph is the Company's response to the Commission's comment.

GENERAL

1. YOUR LETTER OF RESPONSE INDICATES, WITH RESPECT TO MOST OF THE COMMENTS IN OUR PREVIOUS LETTER, ONLY THAT "THE PROSPECTUS HAS BEEN REVISED IN RESPONSE TO THE STAFFS COMMENTS." WHEN YOU RESPOND TO THE COMMENTS IN THIS LETTER, PLEASE INDICATE, IN EACH RESPONSE, PRECISELY WHERE THE REVISIONS ARE LOCATED AND, IN REASONABLE DETAIL, WHAT THEY CONSIST OF.

The Staff's comment has been considered and responses to Staff comments on Amendment 2 have been drafted to specifically describe the details of each revision.

2. WE NOTE THAT YOU HAVE MADE A NUMBER OF REVISIONS TO YOUR PREVIOUSLY FILED DOCUMENT THAT HAVE NOT BEEN RED-LINED IN THIS AMENDMENT. SEE, FOR EXAMPLE, THE FOOTNOTES NOW PRESENTED ON PAGES 1 AND 2 AND THE FOOTNOTES TO THE SELLING SECURITY HOLDERS TABLE ON PAGE 12. PLEASE ENSURE THAT ALL REVISIONS ARE RED-LINED IN FUTURE AMENDMENTS TO THIS REGISTRATION STATEMENT.

The Staff's comment has been considered and all revisions to Amendment 2 have been redlined in Amendment 3.

3. WE ARE UNABLE TO LOCATE THE DISCLOSURE REQUIRED BY ITEM 402 OF REGULATION S-B. PLEASE INCLUDE IT IN YOUR NEXT AMENDMENT.

The executive compensation disclosure required by Item 402 of Regulation S-B appears on page 42 of Amendment 2. That section has been updated for the purposes of Amendment 3.

PROSPECTUS SUMMARY - PAGE 1

4. PLEASE REVISE THE DISCLOSURE UNDER "OUR COMPANY" TO DISCLOSE THE EXACT DEVELOPMENTAL STATUS OF EACH OF YOUR PROPOSED PRODUCTS.

The first paragraph of the "Our Company" section on page 2 of the prospectus has been revised to disclose that an IND for MDI-P is on file with FDA and we are awaiting results of further preclinical studies to seek FDA approval to proceed with Phase I clinical trials. This section has been further amended to disclose that SaveCream is currently in preclinical development.

5. IT APPEARS THAT THERE IS NO MINIMUM CONVERSION PRICE PER SHARE ON THE CONVERTIBLE PREFERRED STOCK YOU ISSUED ON MARCH 14, 2005. PLEASE CLEARLY INDICATE THIS AND INCLUDE APPROPRIATE DISCLOSURE HERE, AND IN THE RISK FACTOR SECTION, REGARDING THE POTENTIAL ADVERSE CONSEQUENCES FOR INVESTORS.

Footnote 1 in the "Our Company" section has been revised to include an express disclosure that there is no minimum conversion price per share for

the preferred stock issued on March 14, 2005. This section has been further amended to advise investors to consider the risks associated with the conversion feature. Similarly, the risk factor concerning dilution has been amended to not only refer investors to the Dilution section of the prospectus, but also to point out in particular the dilution risks associated with the Series A preferred stock.

6. ALSO, PLEASE TELL US WHY YOU USED A $.05 PER SHARE CONVERSION PRICE TO DETERMINE THE NUMBER OF SHARES UNDERLYING THE CONVERTIBLE PREFERRED STOCK ISSUED IN MARCH IF THERE IS NOT A MINIMUM CONVERSION PRICE.

The disclosure was revised to reflect that $0.05 per share was the assumed conversion price chosen to calculate the number of shares to be registered in connection with this issuance, as required by the applicable registration rights agreement with Mercator Momentum Fund, LP and Mercator Momentum Fund III, LP.

7. PLEASE DISCLOSE THE MAXIMUM AND MINIMUM NUMBER OF SHARES THAT COULD BE ISSUED ON CONVERSION OF ALL OF THE CONVERTIBLE PREFERRED STOCK.

The statement has been revised in response to the Staff's comment to reference the Selling Security Holders section. This section discloses the minimum and maximum number of shares that could be issued upon conversion.

RISK FACTORS -- PAGE 2

8. PLEASE INCLUDE A RISK FACTOR ADDRESSING "PENNY STOCK" ISSUES.

A risk factor entitled "`Penny stock' rules may make buying or selling our securities difficult which may make our stock less liquid and make it harder for investors to buy and sell our shares," has been added at page 8, disclosing the risks arising out the fact that our stock falls within the definition of a penny stock under SEC regulations.

9. PLEASE INCLUDE A RISK FACTOR ADDRESSING THE RISKS AND ADVERSE CONSEQUENCES RESULTING FROM THE BENEFICIAL OWNERSHIP OF 80.58% OF YOUR COMMON STOCK BY MERCATOR ADVISORY GROUP, LLC.

The Selling Security Holders section of the prospectus has been updated to include a detailed disclosure of the actual minimum and maximum number of shares of common stock into which the outstanding Series A stock could be converted, including the limitation in the Series A financing documents that prohibits the Series A shareholders from beneficially owning more than 9.99% of the issued and outstanding common stock at any one time. The resulting beneficial ownership of our stock is clearly described on page 12 of Amendment 3. By reason of the limitation on ownership, any statement that Mercator Advisory Group is the beneficial owner of 80.58% of our common stock would not accurately reflect the risks associated with purchase of the securities.

WE ARE A DEVELOPMENT-STAGE COMPANY THAT HAS NOT YET COMMERCIALIZED A PRODUCT. -- PAGE 2

10. IN THE THIRD SENTENCE OF THE RISK FACTOR YOU CHARACTERIZE YOUR PRE-CLINICAL STUDIES OF MDI-P AND SAVECREAM AS "QUITE FAVORABLE." IT IS UNCLEAR WHAT THIS STATEMENT MEANS, ESPECIALLY IN THE PRE-CLINICAL CONTEXT. IN ADDITION, IT APPEARS TO BE MITIGATING LANGUAGE THAT IS INAPPROPRIATE IN RISK FACTOR DISCLOSURE. PLEASE DELETE IT.

The risk factor on page 2 of the prospectus, disclosing that we are a development stage company that has not yet commercialized a product, has been revised to indicate that preclinical studies of MDI-P and anecdotal clinical data for SaveCream have been positive.

11. IN ADDITION, WE ARE UNABLE TO LOCATE ANY DISCLOSURE IN THE DOCUMENT RELATING TO PRE-CLINICAL STUDIES OF SAVECREAM. PLEASE EITHER DELETE THE REFERENCE OR PROVIDE THE INFORMATION SUPPORTING THE STATEMENT.

The referenced risk factor has been revised to refer to the anecdotal clinical data we have on file for SaveCream, as disclosed in the Description of Business section. The Description of Business section has been revised, in the subsection on MDI's commercialization plans for SaveCream, to disclose that we will believe we can use existing CMC data, but will have to complete other preclinical testing.

WE MAY NOT BE ABLE TO RAISE SUFFICIENT CAPITAL TO MEET PRESENT AND FUTURE OBLIGATIONS. - PAGE 3

12. YOU INDICATE THAT AS OF MARCH 31, 2005, YOUR CURRENT LIABILITIES EXCEEDED

YOUR CURRENT ASSETS BY $760,802 AND YOU NEED TO OBTAIN ADDITIONAL CAPITAL TO MEET "BASIC OPERATIONAL NEEDS." PLEASE IDENTIFY AND QUANTIFY THESE NEEDS. DISCUSS THE STEPS YOU HAVE TAKEN OR INTEND TO TAKE TO REMEDY THIS SITUATION. IDENTIFY THE SPECIFIC ADVERSE CONSEQUENCES THAT YOU WILL EXPERIENCE IF YOU ARE UNABLE TO SATISFY YOUR CURRENT LIABILITIES OR OPERATIONAL NEEDS.

The referenced risk factor has been revised to detail MDI's cash needs and anticipated solutions.

13. ON PAGE 22 YOU INDICATE THAT YOU HAVE FILED AN IND WITH THE FDA SEEKING PERMISSION TO BEGIN PHASE I HUMAN CLINICAL TRIALS OF MDI-P AS A TREATMENT FOR CYSTIC FIBROSIS, AND THE FDA HAS REQUESTED FURTHER ANIMAL TESTING AND RAISED OTHER QUESTIONS. PLEASE ADDRESS THE EFFECT YOUR FINANCIAL CONDITION HAS AND WILL HAVE ON YOUR IND APPLICATION AS PART OF THIS RISK FACTOR.

The referenced risk factor has been revised to disclose the impact of the FDA's request for further preclinical studies on our current and future capital needs. We have disclosed that we believe we have sufficient capital on hand to initiate these clinical studies and

that further requests for preclinical studies by the FDA may require the expenditure of funds in excess of the amounts currently budgeted for preclinical and Phase I development of MDI-P for treatment of cystic fibrosis.

14. IN THE FOURTH SENTENCE OF THE RISK FACTOR YOU STATE THAT YOU DO NOT ANTICIPATE THAT REVENUES WILL SATISFY THESE CAPITAL REQUIREMENTS. THIS SUGGESTS THAT YOU CURRENTLY HAVE REVENUES, WHICH IS NOT THE CASE. PLEASE DELETE THE STATEMENT.

The referenced sentence in this risk factor has been deleted in response to the staff's comment.

15. IN THE LAST BULLET OF THE RISK FACTOR YOU REFER TO "THE EFFECT OF THE EXERCISE OF OUTSTANDING OPTIONS AND WARRANTS EXERCISABLE INTO APPROXIMATELY 60 MILLION SHARES OF COMMON STOCK." PLEASE DESCRIBE WHAT THIS EFFECT IS LIKELY TO BE.

The reference risk factor has been revised to disclose that dilution is the likely effect of the exercise of outstanding options and warrants, and references the risk factor detailing the risk of dilution below.

OUR OPERATIONS ARE AND WILL BE SUBJECT TO EXTENSIVE REGULATION. - PAGE 4

16. PLEASE REFER TO COMMENT 8 IN OUR PREVIOUS LETTER. IN THAT COMMENT WE ASKED YOU TO RECONCILE A NUMBER OF STATEMENTS REGARDING SUBMISSION OF AN IND TO THE FDA. YOUR RESPONSE INDICATES THAT YOU REVISED THE PROSPECTUS IN RESPONSE TO THE COMMENT, BUT WE ARE UNABLE TO LOCATE THE REVISED DISCLOSURE. PLEASE TELL US WHERE TO FIND THE REVISED DISCLOSURE, OR PROVIDE US WITH THE INFORMATION WE PREVIOUSLY REQUESTED.

The inconsistent statements referred to in comment 8 to Amendment 1 were removed from Amendment 2 in response to this and other staff comments. The Summary on page 1 has been revised in Amendment 3 to include disclosure of the exact developmental status of MDI-P, namely that an IND for MDI-P is on file with FDA and we are awaiting results of further preclinical studies to seek FDA approval to proceed with Phase I clinical trials.

WE FACE INTENSE COMPETITION AND COMPETING PRODUCTS. - PAGE 6

17. THE INFORMATION IN THIS RISK FACTOR IS SO VAGUE AND ABSTRACT THAT IT IS APPLICABLE TO MOST COMPANIES IN YOUR INDUSTRY. PLEASE EXPAND THE RISK FACTOR TO IDENTIFY YOUR MOST SIGNIFICANT COMPETITORS AND THE COMPETING PRODUCTS FOR EACH OF YOUR PROPOSED DRUGS. DISCUSS HOW YOU PROPOSE TO COMPETE WITH THESE COMPETITORS AND PRODUCTS GIVEN YOUR LIMITED RESOURCES.

The referenced risk factor has been revised at page 6 to disclose our most significant competitors, identified as the manufacturers of currently available, commonly used therapies for treatment of HIV, cystic fibrosis and breast cancer. The revised risk factor also discloses that we may pursue a co-development partner or licensing opportunities to enable our technologies, should they be commercialized, to compete in the respective markets.

OUR INTELLECTUAL PROPERTY MAY NOT BE ADEQUATELY PROTECTED. - PAGE 6

18. PLEASE REFER TO COMMENT 9 IN OUR PREVIOUS LETTER. YOUR REVISED RISK FACTOR DOES NOT ADDRESS MOST OF THE ISSUES WE RAISED IN THAT COMMENT. PLEASE

REVISE THE RISK FACTOR AS WE PREVIOUSLY REQUESTED.

The referenced risk factor was revised at page 7 to disclose the number of patents, what those patents cover, and their durations, including references to the more detailed information contained in the Description of Business section.

WE MAY NEED TO LITIGATE TO SECURE OUR RIGHTS TO SAVECREAM AND RELATED ASSETS. - PAGE 7

19. YOU SAY THAT AT THE TIME YOU ACQUIRED SAVECREAM, THE SELLER HAD NOT YET OBTAINED AND FILED WITH THE APPROPRIATE PATENT OFFICES ASSIGNMENTS OF THE VARIOUS INVENTORS' RIGHTS TO THE UNDERLYING INVENTIONS. PLEASE EXPAND THE RISK FACTOR TO IDENTIFY THE PATENT OFFICES, INVENTORS, INVENTORS' RIGHTS AND UNDERLYING INVENTIONS YOU REFER TO.

The referenced risk factor has been revised at page 7 to identify the inventors and the specific rights that have not yet been assigned by one of the inventors to the company.

20. YOU SAY FURTHER THAT YOU MAY NEED TO INITIATE LITIGATION AGAINST THE INVENTORS TO SECURE THE ASSIGNMENTS. PLEASE INDICATE WHAT COUNTRY YOU WOULD HAVE TO LITIGATE THIS ISSUE IN, WHETHER YOU CURRENTLY HAVE THE FUNDS TO DO SO, AND WHETHER THE INVENTORS HAVE REFUSED TO MAKE THE ASSIGNMENTS. IF SO, ALSO INDICATE WHAT THE BASIS FOR THEIR REFUSAL IS.

The referenced risk factor has been revised at page 7 to indicate that any litigation that may be required against one of the SaveCream inventors would be brought in each of the countries in which patent applications have been filed and that we may not have sufficient funds to effectively prosecute those claims. We further disclose that one of the inventors has assigned his rights in the SaveCream patent to the company. The other inventor has refused to make the assignment he is contractually bound to make, and we are unaware of any basis in law for his refusal.

21. IT IS UNCLEAR WHETHER THE FAILURE TO OBTAIN THE ASSIGNMENTS MEANS THAT THE INTELLECTUAL PROPERTY YOU ACQUIRED IN THIS TRANSACTION IS NOT PATENTABLE, OR WHETHER PATENT APPLICATIONS HAVE EVEN BEEN FILED. WE MAY HAVE ADDITIONAL COMMENTS AFTER WE REVIEW YOUR RESPONSE.

The referenced risk factor has been revised at page 7 to disclose that the inventions are patentable, patent applications have been filed and have been issued in many cases (as described more fully in the Description of Business section), and intellectual property rights obtained from SaveT will remain subject to patent protection should we fail to obtain the second inventor's assignment. We further disclose the specific adverse consequences should we be unable to procure the inventor's assignment.

THE MARKET FOR OUR STOCK IS THIN AND SUBJECT TO MANIPULATION. - PAGE 8

22. PLEASE REVISE THE RISK FACTOR TO DISCUSS THE "THIN" TRADING IN YOUR STOCK AS WELL AS THE POTENTIAL FOR "MANIPULATION" REFERENCED IN THE SUBHEADING. QUANTIFY THE DISCLOSURE TO THE EXTENT PRACTICABLE.

The referenced risk factor has been revised in response to the Staff's comments. We disclose that the low trading volume in our stock increases the volatility of the stock price and may lead to significant fluctuations in value with sales of even small blocks of stock. We further disclose the risk of naked short selling arising from the thin trading in our stock.

OBTAINING ADDITIONAL CAPITAL THOUGH THE SALE OF COMMON STOCK WILL RESULT IN DILUTION OF STOCKHOLDER INTERESTS. - PAGE 8

23. WE NOTE THAT THIS RISK FACTOR IS RELATED TO THE RISK FACTOR CALLED "WE MAY NOT BE ABLE TO RAISE SUFFICIENT CAPITAL..." ON PAGE 3. PLEASE RELOCATE IT SO THAT IT FOLLOWS THAT RISK FACTOR. ALSO, PLEASE TIE THIS RISK TO THE LAST BULLET IN THE RISK FACTOR ON PAGE 3.

In response to the Staff's comment, the referenced risk factor has been moved to follow the risk factor, "We may not be able to raise sufficient capital..." on page 3. The last bullet in the previous risk factor has been deleted as the risk it addresses is more appropriately covered under this dilution risk factor.

24. UNDER "DILUTION" ON PAGE 10, YOU DISCUSS THE ADVERSE IMPACT THAT OUTSTANDING OPTIONS AND CONVERSION RIGHTS MAY HAVE ON FUTURE EQUITY OFFERINGS. YOU SHOULD ALSO ADDRESS THIS IMPACT IN THE RELOCATED RISK FACTOR.

The referenced risk factor was revised to discuss the adverse impact that outstanding options and conversion rights may have on future equity offerings.

SELLING SECURITY HOLDERS - PAGE 10

25. IN COMMENT 11 OF OUR PREVIOUS LETTER WE REQUESTED THAT YOU TELL US WHETHER ANY OF THE NATURAL PERSONS HAVING BENEFICIAL OWNERSHIP OF THE SECURITIES REGISTERED FOR SALE ARE BROKER/DEALERS OR AFFILIATES OF BROKER/DEALERS. YOUR LETTER INDICATES THAT THE PROSPECTUS HAS BEEN REVISED IN RESPONSE TO THE COMMENT. PLEASE TELL US WHERE THIS INFORMATION IS LOCATED OR PROVIDE US WITH THE INFORMATION WE PREVIOUSLY REQUESTED.

The referenced section has been revised to disclose that Ascendiant Securities, LLC is a registered broker-dealer, and Messrs. Wilhite and Bergendahl are registered principals of Ascendiant. No other parties are broker/dealers or affiliates.

26. IN COMMENT 11, WE ALSO ASKED YOU TO INCLUDE THE IDENTITIES OF THE NATURAL PERSONS HAVING BENEFICIAL OWNERSHIP OF THE SECURITIES BEING REGISTERED. AS PREVIOUSLY REQUESTED, PLEASE IDENTIFY THE NATURAL PERSONS HAVING BENEFICIAL OWNERSHIP OF THE SECURITIES BEING REGISTERED ON BEHALF OF ASCENDIANT SECURITIES, LLC AND ASCENDIANT CAPITAL GROUP, LLC.

The referenced risk factor has been revised to disclose, in footnotes 7 and 8 to the beneficial ownership table on page 12, that Ascendiant Securities LLC is a wholly owned subsidiary of Ascendiant Capital Group LLC, whose beneficial owners are Bradley Wilhite and Mark Bergendahl.

27. THE REVISED DISCLOSURE AT THE TOP OF PAGE 12 INDICATES THAT THE TABLE THAT FOLLOWS PRESENTS INFORMATION REGARDING SECURITIES EXERCISABLE BEFORE JUNE 2, 2005. PLEASE REVISE THE DISCLOSURE AND THE TABLE TO INCLUDE THIS INFORMATION FOR ANY SECURITIES EXERCISABLE WITHIN 60 DAYS BEFORE AND AFTER THE FILING DATE OF THE AMENDMENT. PLEASE MAKE A SIMILAR REVISION TO THE OWNERSHIP TABLE ON PAGE 17.

The disclosure preceding the table clearly indicates that the information was compiled in compliance with applicable SEC rules. This includes the requirement that information in table represent securities exercisable within 60 days before and after filing, as indicated in footnote b of the table.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT - PAGE 17

28. YOU HAVE NOT PROPERLY DISCLOSED THE OWNERSHIP INFORMATION FOR MERCATOR ADVISORY GROUP, LLC IN THE TABLE. YOU HAVE DISCLOSED, ON PAGE 12, THAT MERCATOR ADVISORY GROUP CONTROLS THE INVESTMENTS OF THE MONARCH FUND AND BOTH MERCATOR MOMENTUM FUNDS. THUS, THE NUMBER OF SHARES ATTRIBUTED TO MERCATOR ADVISORY GROUP IN THE TABLE SHOULD INCLUDE ALL OF THE SHARES ATTRIBUTABLE TO EACH OF THE FUNDS.

IT ALSO APPEARS THAT DAVID F. FIRESTONE SHOULD BE IDENTIFIED IN THE TABLE AS THE BENEFICIAL OWNER OF ALL OF THE SHARES HELD BY THE FUNDS AND THE GROUP. PLEASE REVISE THE TABLE AND THE FOOTNOTES ACCORDINGLY.

The referenced table has been revised as requested.

29. CURRENTLY, THE FOOTNOTES CONTAIN "ESTIMATES" OF THE NUMBER OF SHARES THAT MAY BE ACQUIRED UPON EXERCISE OF OPTIONS. PLEASE REVISE THE TABLE AND THE FOOTNOTES TO SHOW THE EXACT NUMBER OF SHARES THAT MAY BE ACQUIRED BY EACH NAMED PERSON UPON THE EXERCISE OF THEIR STOCK OPTIONS.

The referenced footnotes have been revised to disclose exact numbers of shares that may be acquired upon exercise of options.

30. PLEASE ALSO REVISE THE TABLE AND THE FOOTNOTES TO SHOW THE EXACT NUMBER OF SHARES THAT CAN BE ACQUIRED BY EACH NAMED PERSON UPON THE EXERCISE OF WARRANTS OR THE CONVERSION OF CONVERTIBLE SECURITIES. WHERE CONVERTIBLE SECURITIES ARE CONVERTIBLE BASED ON THE CURRENT PRICE OF YOUR STOCK, PROVIDE THE OWNERSHIP INFORMATION BASED ON THE MOST RECENT PRACTICABLE STOCK PRICE WITH APPROPRIATE CALCULATIONS PRESENTED IN THE FOOTNOTES. PLEASE MAKE SIMILAR CHANGES TO THE SELLING SECURITY HOLDER INFORMATION ON PAGE 10.

The referenced table has been revised as requested to disclose exact numbers of shares, based upon the most recent stock price.

PREFERRED STOCK - PAGE 19

31. PLEASE REFER TO COMMENT 17 IN OUR PREVIOUS LETTER. ALTHOUGH YOU STATE THAT THE PROSPECTUS WAS REVISED IN RESPONSE TO THE COMMENT, WE ARE UNABLE TO LOCATE ANY INFORMATION REGARDING A DIVIDEND PREFERENCE. PLEASE REVISE OR ADVISE AS WE PREVIOUSLY REQUESTED.

Comment 17 to Amendment 1 requested a description of the dividend preference for the Series A preferred stock, as well as a quantification of what holders of outstanding shares of preferred stock are entitled to upon dissolution of the company. In Amendment 2, we revised the Preferred Stock disclosure, appearing on page 19 of Amendment 2, to include the precise language set forth in the Designation. Thus, no additional information about the rights of holders of preferred stock is available. A copy of the Designation has been filed.

DESCRIPTION OF BUSINESS - PAGE 22

32. PLEASE DELETE THE THIRD SENTENCE OF THE THIRD PARAGRAPH UNDER THIS HEADING. IT IS A CONCLUSORY STATEMENT UNSUPPORTED BY FACTS.

The referenced sentence on page 22 has been revised to include supporting facts. We disclose the specific results of our preliminary and anecdotal clinical trials in which an average fifty percent reduction in tumor size was obtained with two weeks' treatment.

33. PLEASE ALSO DELETE THE NEXT TO LAST SENTENCE OF THE FIRST PARAGRAPH UNDER "RELATED DEVELOPMENTS" ON PAGE 23. IT TOO IS A CONCLUSORY STATEMENT UNSUPPORTED BY FACTS.

The referenced sentence on page 22 has been revised to include supporting facts. We disclose the specific results of our preliminary and anecdotal clinical trials in which an average fifty percent reduction in tumor size was obtained with two weeks' treatment.

34. ON PAGE 23, IN THE THIRD PARAGRAPH UNDER "RECENT DEVELOPMENTS," YOU STATE THAT YOU EXPECT TO EXPAND THE CLINICAL TRIALS FOR SAVECREAM OVER 2005 AND THAT THIS WILL "OPEN THE DOOR TO COMMERCIALIZATION OPPORTUNITIES" FOR SAVECREAM BY LATE 2006. YOU HAVE NOT YET FILED AN IND FOR THIS PROPOSED PRODUCT, AND YOU DO NOT APPEAR TO HAVE THE FUNDS TO DO SO. ACCORDINGLY, THESE STATEMENTS ARE INAPPROPRIATE. PLEASE DELETE THEM.

The referenced paragraph has been revised in response to the Staff's comments. We disclose that we intend to perform additional preclinical development for SaveCream, but we will need to raise additional funds to do so. We further disclose that co-development or out-licensing opportunities may be pursued should we be unable to fund the required pre-clinical testing. Please note that "commercialization" includes any ability to generate revenues, and any technology at any stage of development may be sold or licensed.

35. IN THE LAST PARAGRAPH ON PAGE 23 YOU STATE THAT YOU HAVE AGREED WITH THE FDA ON A "LARGE ANIMAL MODEL PROTOCOL" TO ESTABLISH PHARMACOLOGICAL SAFETY WITH RELATION TO CARDIOVASCULAR AND CENTRAL NERVOUS SYSTEM TOXICITY" FOR YOUR PENDING IND APPLICATION AND EXPECT TO BEGIN THAT PHASE OF THE TESTING IN THE VERY NEAR FUTURE AND TO START PHASE I CLINICAL TRIALS IN CYSTIC FIBROSIS IN THE FOURTH QUARTER OF 2005. GIVEN YOUR CURRENT FINANCIAL CONDITION AND LACK OF FUNDS, IT IS NOT CLEAR HOW YOU INTEND TO DO THIS. PLEASE IDENTIFY THE SOURCE OF FUNDS YOU WILL USE TO DO THIS AND HOW MUCH YOU ANTICIPATE IT WILL COST. IF YOU ARE UNABLE TO PROVIDE THIS INFORMATION, PLEASE DELETE THE STATEMENTS REGARDING THE TIMING OF YOUR RESEARCH ACTIVITIES.

The referenced paragraph has been revised in response to the staff's comments. We disclose that we have entered into fixed price contracts for the research services we believe will be necessary to complete the preclinical testing and initiate the Phase I cystic fibrosis testing of MDI-P, and that we believe we have budgeted sufficient funds for these activities.

36. IN A NUMBER OF PLACES IN YOUR REVISED DISCLOSURE YOU MAKE CLAIMS REGARDING THE SIZE OF MARKETS, SIDE-EFFECTS OF EXISTING PRODUCTS AND OTHER STATISTICAL CLAIMS. SEE, FOR EXAMPLE, THE THIRD PARAGRAPH ON PAGE 26, THE THIRD PARAGRAPH ON PAGE 27 AND THE LAST THREE PARAGRAPHS ON PAGE 29. PLEASE PROVIDE US WITH FACTUAL SUPPORT FOR EACH CLAIM YOU MAKE, INCLUDING COPIES OF THE DOCUMENTS YOU ARE RELYING ON IN MAKING THE CLAIMS. MARK THE SUPPORTING DOCUMENTS TO SHOW THE SPECIFIC LOCATION OF THE INFORMATION UNDERLYING EACH CLAIM. WE MAY HAVE FURTHER COMMENT AFTER REVIEWING THE SUPPORTING DOCUMENTS.

The Description of Business section has been revised in response to the Staff's comments. Appendix 1 to this letter contains supporting

documentation for all market information, reported side effects and other statistical claims appearing in the revised disclosure.

37. PLEASE REFER TO THE BULLETS AT THE BOTTOM OF PAGE 27. PLEASE REVISE THIS AND ALL OTHER INSTANCES WHERE YOU HAVE STATED THAT YOUR PROPOSED PRODUCTS HAVE BEEN SHOWN, DEMONSTRATED OR OTHERWISE SUGGESTED THAT ANY OF YOUR PRODUCT CANDIDATES IS SAFE OR EFFECTIVE, INCLUDING THE LAST SENTENCE ON PAGE 28 AND THE LAST SENTENCE OF THE CARRYOVER PARAGRAPH AT THE TOP OF PAGE 29 AND ALL OF THE DISCLOSURE UNDER "POTENTIAL BENEFITS OF SAVECREAM IN TREATING ER-POSITIVE BREAST CANCERS" ON PAGE 30. THESE CONCLUSIONS ARE FOR THE FDA OR SIMILAR FOREIGN REGULATORY AUTHORITY TO MAKE. ADDITIONALLY, WHEN REFERRING TO THE FDA OR OTHER REGULATORY AUTHORITY'S FINDING YOU SHOULD STATE THAT THE CANDIDATE IS SUFFICIENTLY SAFE OR EFFECTIVE AS THEY DO NOT DECLARE A PRODUCT TO BE SAFE. WE WILL NOT OBJECT IF YOU DISCLOSE THAT A CANDIDATE WAS WELL TOLERATED OR DEMONSTRATED POSITIVE RESULTS.

The referenced statements have been revised to clarify that we are disclosing our hopes for positive outcomes with the use of our products based on preliminary research, and that these outcomes have not yet been established and will have to be demonstrated by further clinical testing.

38. PLEASE REFER TO COMMENT 22 IN OUR PREVIOUS LETTER. WE ARE UNABLE TO LOCATE THE REVISED DISCLOSURE. PLEASE ADVISE US WHERE IT IS LOCATED OR REVISE AS WE PREVIOUSLY REQUESTED.

The referenced statement does not appear in the Description of Business section of Amendment 2. A similar statement appearing in the Management Discussion and Analysis section of Amendment 2, at page 38, has been revised to disclose the source of funding budgeted to initiate the Phase I cystic fibrosis trials and our belief that additional funding may be necessary to complete the trials.

39. PLEASE REVISE YOUR DISCUSSION OF PATENTS TO EXPLAIN WHAT A "METHOD PATENT" IS. ALSO, WE ARE UNABLE TO LOCATE THE REVISIONS YOU MADE IN RESPONSE TO COMMENT 23, EXCEPT FOR THE DURATION OF THE PATENTS. PLEASE PROVIDE THE REMAINDER OF THE INFORMATION WE REQUESTED IN THAT COMMENT.

The disclosures related to our intellectual property have been revised in response to the Staff's comments. We have included in the description of each patent a statement of whether it covers a substance or a method of using or producing a substance. We have disclosed that we believe our existing patents and pending patent applications, if granted, are sufficient to protect the intended uses of MDI-P and SaveCream, but that additional patents may be sought if new intended uses are pursued.

MANAGEMENT'S DISCUSSION AND ANALYSIS - PAGE 37

LIQUIDITY AND CAPITAL RESOURCES - PAGE 38

40. IN THE SECOND PARAGRAPH UNDER THIS HEADING YOU REFER TO MAKING "THE SECOND INSTALLMENT ON OUR PURCHASE OF THE SAVECREAM ASSETS." WE ARE UNABLE TO LOCATE ANY DISCUSSION OF THESE INSTALLMENT PAYMENTS IN CONJUNCTION WITH YOUR DESCRIPTION OF THE ACQUISITION. PLEASE DISCUSS YOUR PURCHASE ARRANGEMENT IN GREATER DETAIL, QUANTIFYING THE DISCLOSURE TO THE EXTENT PRACTICABLE. WE MAY HAVE ADDITIONAL COMMENTS AFTER REVIEWING YOUR RESPONSE.

In Amendment 2, a complete description of the acquisition of the SaveCream assets was included in the Notes to Financial Statements Section, Note J - Subsequent Events. These details, including details of the installment payment schedule, have been included at page 23, under Recent Developments, in the Description of Business Section.

41. WE NOTE THAT YOUR AGREEMENT TO ACQUIRE THESE ASSETS HAS NOT BEEN FILED AS AN EXHIBIT TO THE REGISTRATION STATEMENT. PLEASE INCLUDE IT IN YOUR NEXT AMENDMENT, IN ADDITION, PLEASE EXPAND THE DISCUSSION IN THE BUSINESS SECTION TO INCLUDE A DISCUSSION OF ALL OF THE MATERIAL PROVISIONS OF THAT AGREEMENT.

The Description of Business section has been revised as described above to include the material terms of the asset purchase agreement. The agreement was filed with the Q2 10-Q and is referenced as Item 2.1 in the Exhibit Index.

42. PLEASE PROVIDE FACTUAL SUPPORT FOR YOUR CLAIM THAT YOU HAVE SUFFICIENT CAPITAL ON HAND TO COMPLETE PHASE I CLINICAL TRIALS FOR CYSTIC FIBROSIS. WE NOTE, IN THIS REGARD, THAT THE FDA HAS NOT APPROVED THE IND, ALTHOUGH IT HAS BEEN PENDING FOR AN EXTENDED PERIOD OF TIME, AND HAS APPARENTLY REQUIRED YOU TO CONDUCT ADDITIONAL PRE-CLINICAL STUDIES IN ORDER TO CONSIDER IT FURTHER.

The referenced statement on page 38 has been revised in response to the

staff's comments to detail the source of funding for the pre-clinical and Phase I trials. We disclose the basis of our belief that we have sufficient funds to cover the costs of completing the preclinical work and initiating the Phase I trials, and note that additional funds may be required to complete Phase I testing.

RELATED PARTY TRANSACTIONS - PAGE 40

43. PLEASE REFER TO COMMENT 19 IN OUR PREVIOUS LETTER. THE REVISED DISCLOSURE DOES NOT DISCLOSE THE PERIOD OF TIME OVER WHICH THE EXPENSES WERE RENDERED OR ACCRUED. PLEASE REVISE AS WE PREVIOUSLY REQUESTED.

The referenced disclosure on page 40 has been revised to state that the accounts payable represent accrued compensation for the period June 2000 through June 2005.

44. PLEASE RECONCILE THE AMOUNT PAYABLE TO YOUR CEO LISTED HERE WITH THE AMOUNT DISCLOSED IN FOOTNOTE A ON PAGE 42.

Amendment 2 discloses that the amount payable to our CEO on page 40 represents the total payable as of March 31, 2005, while the amount listed on page 42 is for the period ended December 31, 2004. In Amendment 3, the disclosure on page 40 has been updated to reflect the total payable as of June 30, 2005.

45. PLEASE REFER TO COMMENT 20 IN OUR PREVIOUS LETTER. WE ARE UNABLE TO FIND THE LOCATION OF THE DISCUSSION OF THE TERMS OF THE ORAL AGREEMENT BETWEEN THE COMPANY AND MS. ROBINETT. PLEASE REVISE THE DISCLOSURE AS WE PREVIOUSLY REQUESTED.

The related Party Transactions section has been revised to indicate that the executed employment agreement between the company and Ms. Robinett is attached as Exhibit 10.4, and the agreement has been filed with this amendment.

46. THE REVISED DISCLOSURE IN THIS SECTION DOES NOT INCLUDE ALL OF THE INFORMATION SPECIFIED IN ITEM 404 OF REGULATION S-B. FOR EACH IDENTIFIED TRANSACTION, INCLUDE THE NAME OF THE PERSON, INCLUDING THE STOCKHOLDERS TO WHOM YOU OWE MONEY, THE NATURE OF THE PERSON'S INTEREST IN THE TRANSACTION AND THE AMOUNT OF EACH SUCH INTEREST.

Our current noteholders are not shareholders. Therefore, we have deleted such references.

PART II
ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES

47. WE NOTE THAT YOU MADE SALES OF SECURITIES IN MARCH IN PRIVATE PLACEMENTS IN ADDITION TO THE SALE OF CONVERTIBLE PREFERRED SECURITIES CURRENTLY DISCUSSED IN THE PROSPECTUS. PLEASE EXPAND THE DISCLOSURE IN THE MD&A SECTION TO DISCUSS THESE SALES IN REASONABLE DETAIL. ALSO, THE REVISED DISCLOSURE IN THIS SECTION SHOULD IDENTIFY THE PERSONS TO WHOM YOU SOLD THE SECURITIES AND CLARIFY THE CLAIMED EXEMPTION FROM REGISTRATION AND THE FACTS RELIED UPON TO MAKE THE EXEMPTION AVAILABLE. IT APPEARS THAT YOU ARE CLAIMING RELIANCE ON RULE 144 FOR EXEMPTION FROM REGISTRATION.

Item 26 has been revised to include the information requested in the Staff's comment. This includes a disclosure that we believe these sales were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 because the sales did not involve a public offering.

SIGNATURES

48. WE HAVE NOTED YOUR RESPONSE TO COMMENT 29. PLEASE REFER TO THE INSTRUCTIONS FOR SIGNATURES IN THE FORM SB-2 AND REVISE AS WE PREVIOUSLY REQUESTED.

We have added our controller's signature to the registration statement.

FINANCIAL STATEMENTS - DECEMBER 31, 2004

INDEPENDENT AUDITORS' REPORT, PAGE F-3

49. PLEASE INCLUDE, IN THE FILING, THE AUDIT REPORT OF THE OTHER AUDITORS DATED MARCH 20, 2000 REFERRED TO BY EIDE BAILLY LLP RATHER THAN THE ONE DATED MARCH 6, 1999.

The March 20, 2000 audit report has been added in response to the Staff's comment.

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NOTE A - SIGNIFICANT ACCOUNTING POLICIES, PAGE F-8

OTHER INCOME, PAGE F-10

50. PLEASE REFER TO YOUR JUNE 2, 2005 RESPONSE TO COMMENT 27:

o TELL US WHEN THE INDIVIDUAL RELEASED YOU FROM THE LIABILITY AND, IF NOT DURING 2003, HOW RECORDING THE $219, 000 IN YOUR 2003 FINANCIAL STATEMENTS COMPLIES WITH GAAP.

The individual released us from liability as of March 22, 2001. It was appropriate under GAAP to record this change once the prior error was discovered. We did not deem the error to be material enough for GAAP to require us to restate our 2001 and 2002 financials.

o TELL US WHEN THE APPLICABLE STATUTES OF LIMITATION EXPIRED AND WHY RECORDING THE $319,828 IN YOUR 2003 FINANCIAL STATEMENTS COMPLIES WITH GAAP. FURTHER TELL US WHY THE EXPIRATION OF STATUTE OF LIMITATION JUDICIALLY RELEASES YOU FROM THE DEBT. PLEASE CONFIRM THAT THE AMOUNT DOES NOT ESCHEAT TO THE STATE.

The applicable statutes of limitation expired in 2001 through 2003. It was appropriate under GAAP to record this in 2003 because it was in that year that we undertook to closely examine all aged payables and asked for a legal opinion from counsel concerning the statutes of limitation. Based on advice from our auditors, our understanding is that FAS 140 can be satisfied either by court order or by being legally excused from liability because of the running of the statute of limitations. Once we were excused of the liability, the payable is no longer an asset of the creditor. Therefore, no asset exists that may escheat to the state.

Very truly yours,

/s/ Stephen R. Drake

Stephen R. Drake

Encl. Appendix 1
Via overnight mail and email only