

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2000
- TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from _____ to _____

Commission file number 0-12627

MEDICAL DISCOVERIES, INC.

(Exact name of Small Business Issuer as specified in its charter)

Utah

87-0407858

(State or other jurisdiction of
incorporation or organization)

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

738 Aspenwood Lane, Twin Falls, Idaho 83301

(Address of principal executive offices)

(208) 736-1799

(Issuer's telephone number, including area code)

1800 South West Temple, Suite 304, Salt Lake City, Utah 84115

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

Check whether the issuer: (1) has filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for
such shorter period that the registrant was required to file such reports), and
(2) has been subject to such filing requirements for the past 90 days.

Yes No
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APPLICABLE ONLY TO CORPORATE ISSUERS:

State the number of shares outstanding of each of the issuer's classes
of common equity, as of the latest practicable date: As of December 31, 2000,
there were 32,075,421 shares of the issuer's Common Stock outstanding.

Transitional Small Business Disclosure Format (check one): Yes No
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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The following consolidated financial statements are filed with this report:

Consolidated Balance Sheet as of September 30, 2000 (unaudited) and
December 31, 1999 (unaudited)

Consolidated Statements of Operations for the three-month and
nine-month periods ended September 30, 2000 (unaudited) and September
30, 1999 (unaudited) and cumulative amounts since inception through
September 30, 2000 (unaudited)

Consolidated Statements of Cash Flows for the nine-month periods ended
September 30, 2000 (unaudited) and September 30, 1999 (unaudited) and
cumulative amounts since inception through September 30, 2000
(unaudited)

Notes to Unaudited Consolidated Financial Statements

(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2000 AND DECEMBER 31, 1999
(UNAUDITED)

<TABLE>
<CAPTION>

	September 30, 2000	December
31, 1999	-----	-----
<S>	<C>	<C>
CURRENT ASSETS		
Cash	\$ 2,207	\$
10,152		
Inventory	0	
99,370		

Total Current Assets	2,207	
109,522		

PROPERTY AND EQUIPMENT		
Equipment	83,506	
108,521		
Less: Accumulated depreciation	(77,563)	
(79,328)		

Net Property and Equipment	5,943	
29,193		

OTHER ASSETS	0	
900		

Total Assets	\$ 8,150	\$
139,615		
=====		
CURRENT LIABILITIES		
Accounts payable	\$ 1,787,684	\$
1,780,811		
Accrued interest	164,038	
108,154		
Current maturities of:		
Notes payable	470,807	
387,807		
Convertible notes payable	200,983	
200,983		

Total Current Liabilities	2,623,512	
2,477,755		

STOCKHOLDERS' DEFICIT		
Common Stock, no par value, authorized 100,000,000 shares; 26,656,959 shares issued and outstanding, respectively	9,913,837	
9,913,837		
Retained deficit	(12,416,699)	
(12,139,477)		
Subscription receivables	(112,500)	
(112,500)		

Total Stockholders' Deficit	(2,615,362)	
(2,338,140)		

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT
139,615

\$ 8,150

\$

=====

</TABLE>

See notes to consolidated financial statements

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MEDICAL DISCOVERIES, INC.
(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE PERIODS ENDED SEPTEMBER 30, 2000 AND SEPTEMBER 30, 1999
(UNAUDITED)

<TABLE>

<CAPTION>

CUMULATIVE AMOUNTS SINCE 11/20/91 (DATE OF INCEPTION)	FOR THE THREE MONTHS ENDED SEPTEMBER 30		FOR THE NINE MONTHS ENDED SEPTEMBER 30	
	2000	1999	2000	1999
	<C>	<C>	<C>	<C>
REVENUE				
Revenue and fees	\$ 0	\$ 0	\$ 7,620	\$ 0
\$ 134,229				
Interest	0	0	0	0
23,406				
Total Revenue	0	0	7,620	0
157,635				
COST OF GOODS SOLD	0	0	2,511	0
10,261				
GROSS MARGIN	0	0	5,109	0
147,374				
EXPENSES				
License	0	0	0	0
1,001,500				
Research and development	0	10,633	244	376,006
2,272,535				
Inventory writedown	96,859	0	96,859	0
96,859				
Impairment loss	9,709	0	9,709	0
9,709				
General and administrative	27,188	63,490	119,635	246,281
7,980,221				
Total Expenses	133,756	74,123	226,447	622,287
11,360,824				
NET LOSS FROM OPERATIONS	(133,756)	(74,123)	(221,338)	(622,287)
(11,213,450)				
OTHER INCOME / (EXPENSE)	(25,987)	(19,576)	(55,884)	(78,334)
(250,712)				
LOSS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	(159,743)	(93,699)	(277,222)	(700,621)
(11,464,162)				

INCOME TAXES	0	0	0	0
0				
-----	-----	-----	-----	-----
LOSS BEFORE EXTRAORDINARY ITEM (11,464,162)	(159,743)	(93,699)	(277,222)	(700,621)
-----	-----	-----	-----	-----
FORGIVENESS OF DEBT 1,235,536	0	0	0	0
-----	-----	-----	-----	-----
NET LOSS \$(10,228,626)	\$ (159,743)	\$ (93,699)	\$ (277,222)	\$ (700,621)
=====	=====	=====	=====	=====

INCOME / (LOSS) PER SHARE				
Loss from continuing operations	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.03)
\$ (0.57)				
Gain from debt forgiveness	0.00	0.00	0.00	0.00
0.06				
-----	-----	-----	-----	-----
Income / (loss) per share	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.03)
\$ (0.51)				
=====	=====	=====	=====	=====

WEIGHTED AVERAGE NUMBER OF SHARES	26,656,959	26,602,539	26,656,959	26,493,405
20,071,906				

See notes to consolidated financial statements

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MEDICAL DISCOVERIES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIODS ENDED SEPTEMBER 30, 2000 & SEPTEMBER 30, 1999 &
CUMULATIVE AMOUNTS
(UNAUDITED)

<TABLE>			
<CAPTION>			
AMOUNTS	FOR THE NINE MONTHS		CUMULATIVE
11/20/91	ENDED SEPTEMBER 30		SINCE
INCEPTION)	2000	1999	(DATE OF
-----	-----	-----	-----
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES			
Net income (loss) for the period	\$ (277,222)	\$ (700,621)	
\$(11,017,122)			
Add non-cash items			
Common stock options issued for services	0	0	
2,556,890			
Common stock issued for services and license	0	54,000	
3,559,986			
Reduction of legal costs	0	0	
(130,000)			
Depreciation	13,541	9,816	
94,328			
Loss on disposal of equipment	0	0	
30,364			
Gain on debt restructuring	0	0	
(1,235,536)			
Write-off receivables	0	0	
193,965			
Inventory writedown	96,859	0	
96,859			

9,709	Impairment loss	9,709	0	
(7,529)	Decrease (increase) in: Receivables	0	(2)	
96,859	Inventory	2,511	(1,201)	(
0	Prepaid Expenses	0	10,973	
0	Other assets	900	509	
1,631,775	Increase (decrease) in: Accounts payable	6,873	410,050	
185,519	Accrued expenses	55,884	16,978	
-----		-----	-----	-----
Net Cash from Operations (4,127,651)		(90,945)	(199,498)	
-----		-----	-----	-----
INVESTING ACTIVITIES				
(132,184)	Purchases of equipment	0	0	
130,000	Payments received on note receivable	0	0	
-----		-----	-----	-----
Net Cash from Investing Activities (2,184)		0	0	
-----		-----	-----	-----
FINANCING ACTIVITIES				
616,613	Increase in notes payable	83,000	162,701	
(188,004)	Payment of notes payable	0	(50,000)	
316,700	Increase in notes payable	0	0	
131,374	Equity contributed	0	0	
3,255,359	Proceeds from issuance of common stock	0	2,000	
-----		-----	-----	-----
Net Cash from Financing Activities 4,132,042		83,000	114,701	
-----		-----	-----	-----
NET INCREASE / (DECREASE) IN CASH 2,207		(7,945)	(84,797)	
CASH, BEGINNING PERIOD 0		10,152	84,847	
-----		-----	-----	-----
CASH, ENDING PERIOD 2,207		\$ 2,207	\$ 50	\$
=====		=====	=====	=====

</TABLE>

See notes to consolidated financial statements

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MEDICAL DISCOVERIES, INC.

NOTES TO UNAUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2000

NOTE 1. UNAUDITED INTERIM FINANCIAL STATEMENTS.

The accompanying unaudited financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and

regulations. In the opinion of management, all adjustments and disclosures necessary to a fair presentation of these financial statements have been included. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 1999 Annual Report on Form 10-KSB for the year ended December 31, 1999, 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 subsidiary. All significant inter-company transactions and balances have been eliminated in consolidation.

NOTE 2. INVENTORIES.

The Company has maintained inventory during the period 1998 through September 30, 2000. There were no significant sales of the product during the year and no anticipated future sales. Company management determined the inventory was no longer salable as of September 30, 2000. Accordingly, the remaining inventory was charged to expense. The charge of \$96,859 is included in the statement of operations under the caption of inventory writedown.

NOTE 3. ASSET IMPAIRMENT.

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

NOTE 4. GOING CONCERN CONSIDERATIONS.

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

NOTE 5. CONTINGENCIES REGARDING HARVEST JV AGREEMENT.

As of June 28, 2000, the Company, an outside investment group (Harvest Group, L.L.C ("Harvest")), and Hydromedics, Inc. ("Hydromedics"), a corporation formed by Harvest and two other investors, entered into a so-called JV Agreement (the "JV Agreement"). The JV Agreement contemplated that the Company would (1) assign to Hydromedics its rights to certain skin care products, (2) issue 13,000,000 shares to Harvest, and (3) seek to appoint two Harvest representatives to the Company's board of directors. In return, Hydromedics would (1) issue 2,000,000 of its shares to the Company, (2) assume certain obligations of the Company associated with the skin care products to be transferred, and (3) market the skin care products. As for Harvest's obligations, the JV Agreement contemplated that Harvest would (1) assign to the Company 20,000,000 of its previously-owned Hydromedics shares and (2) make available to the Company a \$150,000 line of credit. Finally, the JV Agreement contemplated certain post-closing obligations including (1) Harvest making an

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additional investment in Hydromedics in exchange for 30,000,000 shares of Hydromedics stock, (2) Harvest assigning 20,000,000 of such shares to the Company, and (3) the Company issuing an additional 12,000,000 shares of its stock to Harvest. In total, the transactions contemplated by the JV Agreement would result in the Company owning approximately 40% of Hydromedics and Harvest owning 25,000,000 new shares of the Company's stock (which, if issued, would equal approximately 44% of the Company's total outstanding stock).

The JV Agreement provided that the transactions contemplated above were to have closed on June 28, 2000. However, no closing occurred on June 28, 2000 or since and the Company has taken the position that the transactions contemplated by the JV Agreement have not been consummated. Harvest and Hydromedics recently and for the first time attempted to tender partial performance under the JV Agreement. The Company rejected that tender and has taken the position that the JV Agreement is no longer enforceable by any of the parties because no party timely or completely tendered performance.

On December 26, 2000, Harvest demanded arbitration of the dispute pursuant to terms of the JV Agreement. In its arbitration demand, Harvest is seeking specific performance of the JV Agreement or damages in excess of \$1 million. The

Company has retained legal counsel and is seeking advice concerning how to respond. If a court or arbitrator were to force the Company and the other parties to specifically perform the transactions contemplated by the JV Agreement, the Company's shareholders could suffer significant dilution because the value of the consideration the Company will receive under the JV Agreement could be substantially less than the current market value of the stock to be issued to Harvest. In addition, specific performance could result in significant changes to the Company's financial statements, especially if the JV Agreement were deemed to have been consummated during a period already reported. The financial statements do not include any adjustments or reserves to reflect the possible effects of such a result.

NOTE 6. COMMITMENT REGARDING PEREGRINE STOCK.

Peregrine Properties, LLC, a Utah limited liability company ("Peregrine"), has agreed to provide \$500,000 to the Company to fund testing and research steps necessary to continue development of MDI-P. Under terms of an agreement with Peregrine, MDI will issue 5.5 million shares of the Company's common stock to Peregrine upon completion of the studies. The studies will be funded through an escrow agent. During the interim period since September 30, 2000, the Company deposited in escrow a single certificate for 5.5 million shares for these purposes and Peregrine has so far deposited \$120,000. The escrow agent has periodically made disbursements of cash to those conducting the research and Peregrine will make additional disbursements on its \$500,000 commitment as necessary. Upon completion of the studies, the escrow agent will disburse the 5.5 million shares to Peregrine and will disburse the research results to the Company.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

The purpose of this section is to discuss and analyze the Company's consolidated financial condition, liquidity and capital resources and results of operations. This analysis should be read in conjunction with Management's Discussion and Analysis or Plan of Operation contained in the Company's Annual Report on Form 10-KSB for the year ended December 31, 1999 (the "1999 10-KSB").

OVERVIEW

Medical Discoveries, Inc. (the "Company" or "MDI") is a development stage bio-pharmaceutical research company engaged in the research, development and validation of a new class of drugs, based upon the Company's patented and proprietary electrolysis technologies. The Company is developing active anti-viral, anti-bacterial and anti-fungal agents for a variety of applications.

The Company has developed a product, MDI-P, which, based on preliminary laboratory studies, appears to have the ability to destroy certain viruses (including the HIV virus), bacteria, pathogenic fungi, parasites, and other infectious agents. The Company believes MDI-P may possibly be used as a sterilizing agent for medical and dental instruments. MDI-P may also potentially be used to remove or inactivate infectious agents in human and animal blood-derived products such as plasma and gamma globulin. The Company has obtained patents on MDI-P, the equipment that manufactures it, and the process by which it is manufactured.

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Additional research, development and regulatory review must occur before the Company can accurately assess the commercial value of or realize any value from MDI-P or the Company's other products. Earlier this year the Company exhausted its liquid assets available for research and operating expenses. Since that time, the Company has taken a number of steps to attempt to turn around the business. One of those steps was to appoint a new Chief Executive Officer.

Ms. Judy Robinett assumed the position of Chief Executive Officer of the Company in early November, 2000. Since 1994, Ms. Robinett has owned and operated an international consulting company focused on strategic planning, finance, marketing and distribution for entrepreneurs and established companies. Her prior employment positions included Vice President for Quality Improvement at the Magic Valley Regional Medical Clinic in Twin Falls, Idaho, as well as Division Manager, Quality Programs, for Universal Foods in Idaho. Prior to that, Ms. Robinett was Group Manager, Employee Relations at EG&G's Nuclear Training Facility in Idaho, and a Planner for the State Of Idaho. Ms. Robinett holds an M.S. in Labor Economics and a B.S. from Utah State University.

The Company has also recently obtained new funding for additional research. Peregrine Properties, LLC, a Utah limited liability company ("Peregrine"), has agreed to provide \$500,000 to the Company to fund critical testing and research steps necessary to continue development of MDI-P. Under terms of the agreement, MDI will continue to study the toxicology and chemistry of the drug and conduct laboratory and clinical studies of the drug's efficacy. The research activities will be directed by Dr. William J. Novick, the Company's Vice President and Chief Technical Officer. The studies will be funded through an escrow agent. Upon completion of the studies, the escrow agent will disburse 5.5 million

shares of the Company's common stock to Peregrine and will disburse the research results to the Company. In addition, in consideration of the Peregrine funds, the Company has agreed to nominate and seek the election of a Peregrine representative to the Company's Board of Directors.

Finally, the Company is actively seeking additional funding for immediate operating needs, continued research and development, and long-term capital requirements. See "Liquidity and Capital Resources" below.

RESULTS OF OPERATIONS

For the nine-month period from January 1, 2000 to September 30, 2000, MDI booked \$7,620 revenue from isolated sales of the Company's skin care products to Hydromedics, Inc. All of that revenue was earned in the second quarter pursuant to an Exclusive Sales Agency Agreement between the Company and Hydromedics, Inc., dated December 14, 1999. Those sales are not of the Company's core products and the Company does not anticipate significant future revenue from such sales. The Company did not earn any revenues in the third quarter of this year. By comparison, the Company did not earn any revenues during the first three quarters of 1999.

MDI spent \$244 in research and development costs during the first nine months of 2000 compared to \$376,006 for the same period last year. The absence of research and development work during the first nine months of 2000 is a result of the unavailability of funds to conduct research. MDI reduced its General and Administrative expense to \$119,635 during the first nine months of 2000 from \$246,281 for the same period last year. Funds to support operations during the period came primarily from loans from Harvest Group, L.L.C.

The Company maintained an inventory of certain skin care products during the period 1998 through September 30, 2000. However, there were no significant sales of the products during the year and no anticipated future sales. Therefore, the Company determined the remaining \$96,859 of inventory was no longer salable as of September 30, 2000 and charged it to expense.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

JOINT VENTURE AGREEMENT

As the Company has previously reported, as of June 28, 2000, the Company, an outside investment group (Harvest Group, L.L.C. ("Harvest")), and Hydromedics, Inc. ("Hydromedics"), a corporation formed by Harvest and two other investors, entered into a so-called JV Agreement (the "JV Agreement"). The JV Agreement contemplated that the Company would (1) assign to Hydromedics its rights to certain skin care products, (2) issue 13,000,000 shares to Harvest, and (3) seek to appoint two Harvest representatives to the Company's board of directors. In return, Hydromedics would (1) issue 2,000,000 of its shares to the Company, (2) assume certain obligations of the Company associated with the skin care products to be transferred, and (3) market the skin care products. As for Harvest's obligations, the JV Agreement contemplated that Harvest would (1) assign to the Company 20,000,000 of its previously-owned Hydromedics shares and (2) make available to the Company a \$150,000 line of credit. Finally, the JV Agreement contemplated certain post-closing obligations including (1) Harvest making an additional investment in Hydromedics in exchange for 30,000,000 shares of Hydromedics stock, (2) Harvest assigning 20,000,000 of such shares to the Company, and (3) the Company issuing an additional 12,000,000 shares of its stock to Harvest. In total, the transactions contemplated by the JV Agreement would result in the Company owning approximately 40% of Hydromedics and Harvest owning 25,000,000 new shares of the Company's stock (which, if issued, would equal approximately 44% of the Company's total outstanding stock).

The JV Agreement provided that the transactions contemplated above were to have closed on June 28, 2000. However, no closing occurred on June 28, 2000 or since and the Company has taken the position that the transactions contemplated by the JV Agreement have not been consummated. Harvest and Hydromedics recently and for

the first time attempted to tender partial performance under the JV Agreement. The Company rejected that tender and has taken the position that the JV Agreement is no longer enforceable by any of the parties because, among other reasons, no party timely or completely tendered performance.

On December 26, 2000, Harvest demanded arbitration of the dispute pursuant to terms of the JV Agreement. In its arbitration demand, Harvest is seeking either specific performance of the JV Agreement or damages in excess of \$1 million. The Company has retained legal counsel and is seeking advice concerning how to respond. If a court or arbitrator were to force the Company and the other parties to specifically perform the transactions contemplated by the JV Agreement, the Company's shareholders could suffer significant dilution because the value of the consideration the Company will receive under the JV Agreement could be substantially less than the current market value of the stock to be issued to Harvest.

CAUTIONARY STATEMENT FOR FORWARD LOOKING INFORMATION

Certain information set forth in this report contains "forward-looking statements" within the meaning of federal securities laws. Forward looking statements include statements concerning plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, and financing needs of the Company and other information that is not historical information. When used in this report, the words "estimates," "expects," "anticipates," "forecasts," "plans," "intends," "believes" and variations of such words or similar expressions are intended to identify forward-looking statements. Additional forward-looking statements may be made by the Company from time to time. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of the Company, are also expressly qualified by these cautionary statements.

The Company's forward-looking statements are based upon the Company's current expectations and various assumptions. The Company's expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitation, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties, but there can be no assurance that management's expectations, beliefs and projections will result or be achieved or accomplished. The Company's forward-looking statements apply only as of the date made. The Company undertakes no obligation to publicly update or revise forward-looking statements which may be made to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

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There are a number of risks and uncertainties that could cause actual results to differ materially from those set forth in, contemplated by or underlying the forward-looking statements contained in this report. These risks and uncertainties include, but are not limited to, the ultimate effectiveness of the Company's products, the regulatory environment, the technical and engineering risks associated with new product development, the availability of funding, the cooperation of the Company's creditors, the ability of the Company to attract and retain competent personnel, market acceptance of the Company's products, the presence of competitors, and competing technologies. Some of these risks and certain other uncertainties are discussed in more detail in the 1999 10-KSB. There may also be other factors, including those discussed elsewhere in this report, that may cause the Company's actual results to differ from the forward-looking statements. Any forward-looking statements made by or on behalf of the Company should be considered in light of these factors.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On December 26, 2000, Harvest Group, L.L.C. filed a demand for arbitration with the American Arbitration Association in Salt Lake City, Utah, alleging that the Company breached the JV Agreement discussed in Part I above under the heading "Joint Venture Agreement." Harvest is seeking either specific performance or damages in excess of \$1 million. The Company has retained legal counsel and is seeking advice concerning how to respond. No further proceedings have occurred in the matter since the demand was filed.

ITEM 5. OTHER INFORMATION

RESIGNATION OF CFO. Scott Wood, the Company's former Chief Financial Officer, resigned effective June 30, 2000. Mr. Wood was erroneously listed as a representative of the Company on the Company's November 14, 2000 12b-25 filing requesting an extension of the filing date for the Company's 10-QSB for the quarter ended September 30, 2000.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following exhibits are filed with this report.

10.1 JV Agreement dated as of June 28, 2000, among Medical Discoveries, Inc., Harvest Group, L.L.C., and Hydromedics, Inc. (f/k/a Advanced Sales Company, Inc.)

27 Financial Data Schedule

(b) No report on Form 8-K was filed during the quarter for which this report is filed. However, subsequent to such quarter, the Company filed 8-Ks (and an amendment) on December 15, 2000, December 21, 2000 and January 4, 2001 (as amended) concerning changes in the Company's accountant.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MEDICAL DISCOVERIES, INC.

/s/ Judy Robinett

Judy Robinett
Chief Executive Officer

Date: January 18, 2001

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INDEX TO EXHIBITS

Exhibits

10.1 JV Agreement dated as of June 28, 2000, among Medical Discoveries, Inc., Harvest Group, L.L.C., and Hydromedics, Inc. (f/k/a Advanced Sales Company, Inc.)

27 Financial Data Schedule

JV AGREEMENT

Agreement made and entered into this 28 day of June 2000, by and among Medical Discoveries, Inc., a Utah corporation ("MDI"), Harvest Group, L.L.C., a Utah limited liability company (the "Harvest Group"), and Advance Sales Company, Inc., a Utah corporation ("ASC"). MDI, the Harvest Group and ASC are collectively referred to as the "Parties". This Agreement is hereafter referred to as the "Agreement".

RECITALS:

MDI, or its wholly owned subsidiary, MDI Healthcare Systems, Inc., a Nevada corporation ("HCS"), owns certain rights, licenses, technologies and products (the "Technologies") described in section 1.2.

Because of its financial condition, MDI is not able to commercialize the Technologies.

The Harvest Group desires to commercialize and market the Technologies through Advance Sales Company, Inc. The Harvest Group invested funds in ASC and has agreed to invest additional funds in ASC in exchange for shares of ASC common stock ("ASC Shares").

ASC and Harvest have agreed to issue and assign ASC Shares to MDI, and extend a line of credit to MDI; in exchange for an assignment of the Technologies to ASC and the issuance of MDI common stock to the Harvest Group.

The Parties hereby agree to enter into a business structure and relationship which will allow for development and execution of a business plan to fund the marketing and commercialization of the Technologies on the terms and conditions set forth in this Agreement. Such business structure and relationship as agreed to in this Agreement and in the exhibits, appendices and schedules to this Agreement are hereafter referred to as the "Transaction".

ARTICLE 1 - DESCRIPTION OF THE TRANSACTION

1.1 Formation of ASC. ASC will provide capital to commercialize and market the Technologies. ASC has issued or has agreed to issue ASC Shares to the following subscribers:

- o The Harvest Group \$86,000,000 ASC shares (56,000,000 shares have been issued in exchange for \$350,000 and an additional 30,000,000 shares will be issued to the Harvest Group upon receipt of Harvest Group's payment of the remaining \$400,000 on its subscription of ASC stock as contemplated in section 1.4.B);
- o Holonomic Resources 3,500,000 ASC shares; and
- o Catatonk Trust 8,500,000 ASC shares

1.2 Assignment and Transfer of the Technologies. At the Closing, MDI and HCS will assign and transfer to ASC, all of their respective rights and title in and to the Technologies. The Technologies are specifically described and listed on Schedule 1.2 attached hereto and by this reference made a part hereof. The Technologies specifically include MDI-P and underlying patents and technologies as they apply to cosmeceuticals and skin care products and excludes MDI-P as it applies to pharmaceutical applications. In exchange for MDI's assignment and transfer of the Technologies to ASC, at Closing, ASC shall issue to MDI 2,000,000 ASC Shares. ASC will use its best efforts to employ the capital contributed to ASC contemplated in this agreement for commercialization of the Technologies.

The Technologies shall be assigned and transferred to ASC at the Closing, free and clear of all liens, security interests, charges, encumbrances and rights of others (each, an "Encumbrance") other than the "Permitted Encumbrances".

1.3 Assumed Liabilities. Notwithstanding anything else contained in this Agreement to the contrary, ASC shall assume those liabilities (the "Assumed Liabilities") of MDI, which are specifically identified on Schedule 1.3 attached hereto. The Assumed Liabilities shall be "Permitted Encumbrances" on the Technologies. ASC may, if it deems such action prudent, contest the validity of any Permitted Encumbrances. Except for the Assumed Liabilities, the Purchaser has not agreed to pay, shall not be required to assume and shall have no liability or obligation with respect to any debt, obligation, responsibility or liability of MDI, any Affiliate or successor of MDI, or any claim against any of the foregoing, whether known or unknown, contingent or absolute, or otherwise (the "Excluded Liabilities"). MDI agrees to take all actions and do all things reasonably necessary to ensure that ASC is not liable for any Excluded

Liabilities.

1.4 Exchange of Shares.

a) At the Closing Time, MDI will issue and deliver to the Harvest Group, 13,000,000 shares of MDI no par value common stock (the "MDI Shares"). In exchange for the issuance and delivery of MDI Shares to the Harvest Group, the Harvest Group shall assign and deliver to MDI, 20,000,000 ASC Shares.

b) Upon completion of its obligation under its subscription agreement between ASC and Harvest Group, ASC shall issue 30,000,000 additional shares of its common stock to Harvest Group. Subscription agreement and promissory note are attached as Schedule 1.4b. Immediately subsequent to the issuance of such 30,000,000 shares to Harvest Group and subsequent to the completion of the Harvest Group's due diligence on MDI, the Harvest Group shall assign and transfer 20,000,000 of such ASC Shares to MDI in exchange for 12,000,000 shares of MDI common stock to be delivered by MDI to the Harvest Group. Harvest Group's acceptance of the 12,000,000 MDI shares constitutes Harvest Group's acceptance that the due diligence on MDI has been satisfactorily complete and is acceptable to Harvest Group.

1.5 Structure Management and Members of ASC. Immediate following the Closing, the Articles of Incorporation of ASC shall be substantially in the form of the Articles of Incorporation set forth as Schedule 1.5 attached hereto and by this reference made a part

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hereof. ASC's board will expand the number of directors of ASC to 5. Harvest Group agrees to appoint two MDI nominees to the ASC board. Immediately following the closing and the subsequent exchange of ASC Shares for MDI shares, the shareholders of ASC and the number of ASC Shares owned by such shareholder will be as follows:

<TABLE>
<CAPTION>

Shareholder	Shares Owned	Percentage Owned
The Harvest Group	46,000,000	46.0%
MDI	42,000,000	42.0%
Holonomic Resources	3,500,000	3.5%
Catatonk Trust	8,500,000	8.5%
Total	100,000,000	100%

</TABLE>

1.6 Line of Credit. As part of the transaction, at or prior to the Closing, the Harvest Group will provide or arrange for a line of credit in favor of MDI in an amount of \$150,000, less any monies already lent to MDI by Harvest Group or any of its affiliates. The proceeds from such line of credit shall be used by MDI to support minimal operations while it develops an approved plan to resolve MDI's financial difficulties, to take remedial action in regard to its corporate franchise and SEC filings, to bring current its corporate records and agreements, and to complete a due diligence package that will enable MDI to move forward with its business strategy. In the event that MDI voluntarily or involuntarily becomes subject to the jurisdiction of any United States Bankruptcy Court, the obligation of the Harvest Group or other creditor providing such line of credit, to provide addition funds under such line of credit, shall terminate.

1.7 MDI Board of Directors. At the sole option of the Harvest Group, MDI shall appoint two persons designated by the Harvest Group as directors of MDI.

1.8 Closing. The Closing of the Transaction (the "Closing") shall take place at the offices of ASC on June 28, 2000 or such other place or date as the parties may mutually determine (the "Closing Date").

1.9 Legends. All MDI stock certificates issued to the Harvest Group at the Closing shall contain a legend substantially in the following form:

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, (THE "ACT") OR ANY STATE SECURITIES ACT AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED UNLESS (A) COVERED BY AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND APPLICABLE STATE SECURITIES ACTS; (B) MDI HAS BEEN FURNISHED WITH AN OPINION OF COUNSEL ACCEPTABLE TO IT TO THE EFFECT THAT NO REGISTRATION IS LEGALLY REQUIRED FOR SUCH TRANSFER;

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OR (C) THESE SECURITIES ARE SOLD IN COMPLIANCE WITH RULE 144 PROMULGATED UNDER THE ACT.

All certificates for the ASC Shares assigned to MDI by the Harvest Group and issued to MDI by ASC at the Closing shall contain a legend substantially in the following form:

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, (THE "ACT") OR ANY STATE SECURITIES ACT AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED UNLESS (A) COVERED BY AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND APPLICABLE STATE SECURITIES ACTS; (B) ASC HAS BEEN FURNISHED WITH AN OPINION OF COUNSEL ACCEPTABLE TO IT TO THE EFFECT THAT NO REGISTRATION IS LEGALLY REQUIRED FOR SUCH TRANSFER; OR (C) THESE SECURITIES ARE SOLD IN COMPLIANCE WITH RULE 144 PROMULGATED UNDER THE ACT.

1.10 Further Action. If, at any time after the Closing, any further action is determined by my Party to be necessary or desirable to carry out the purposes of this Agreement or to vest ASC with full right, title and possession of and to the Technologies, each Party shall take such action as is reasonably requested by any other Party

ARTICLE II - REPRESENTATIONS AND WARRANTIES OF MDI

MDI represents and warrants to ASC and to the Harvest Group that the statements contained in this Article II are materially correct and complete as of the date of this Agreement and will be materially correct and complete as of the Closing Date except as set forth in the disclosure schedule accompanying this Agreement (the "MDI Disclosure Schedule"). The Disclosure Schedule will be arranged in paragraphs corresponding to the numbered paragraphs contained in this Agreement. For purposes of this Article II, all references to MDI shall be deemed to include MDI, HCS and any other subsidiary of MDI or HCS.

2.1 Organization; Good Standing. Each of MDI and HCS is a corporation, duly incorporated, validly existing and in good standing under the laws of its state of incorporation and each has all requisite corporate power and authority to own its assets and to carry on its business as currently conducted. Each of MDI and HCS is duly qualified and licensed to do business and is in good standing in all jurisdictions where the nature of its business makes such qualification necessary, except those jurisdictions wherein the failure to so qualify could not have material adverse effect on the business of MDI or HCS.

2.2 Authority; Binding Nature of Agreement. MDI has full power and authority (including full corporate power and authority) to execute and deliver this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by MDI and the performance by it of its obligations hereunder have been approved by the Board of Directors of MDI, and no other corporate proceedings on the part of MDI are necessary to authorize the execution and delivery of this Agreement or the consummation by MDI of the

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Transaction. This Agreement has been duly executed and delivered by MDI and this Agreement constitutes the valid and legally binding obligation of MDI, enforceable in accordance with its terms and conditions subject to (i) laws of general application relating to bankruptcy, insolvency and the relief of debtors, and (ii) rules of law governing specific performance, injunctive relief and other equitable remedies.

2.3 Approvals and Consents; Non Contravention.

a) Except as otherwise set forth in Schedule 2.3(a) of the MDI Disclosure Schedule, no consent, approval, or other action by, or notice to or registration or filing with, any governmental or administrative agency or authority is required or necessary to be obtained by MDI in connection with the execution, delivery or performance of the Transaction Agreements by it or the consummation of the Transaction. Except as otherwise set forth in Schedule 2.3(a) of the MDI Disclosure Schedule, no consent, approval, or other action by, or notice to or registration or filing with, any governmental or administrative agency or authority is required or necessary to be obtained by MDI in connection with the execution, delivery or performance of the Transaction Agreements by it or the consummation of the Transaction.

b) Except as otherwise set forth in Schedule 2.3(b) of the MDI Disclosure Schedule, no consent, approval, waiver or other action by any Person under any MDI Material Contract, agreement, instrument, or other document, or obligation to which either Seller is a party or by which it or any of its assets are bound, is required or necessary for the execution, delivery, and performance of the Transaction Agreements by MDI or the consummation of the Transaction except as may be specifically required by the terms of any Contract. Except as otherwise set forth in Schedule 2.3(b) of the MDI Disclosure Schedule, no consent, approval, waiver or other action by any Person under any MDI Material

Contract, agreement, instrument, or other document, or obligation to which either Seller is a party or by which it or any of its assets are bound, is required or necessary for the execution, delivery, and performance of the Transaction Agreements by MDI or the consummation of the Transaction except as may be specifically required by the terms of any Contract

c) Except as set forth in Schedule 2.3(c) of the MDI Disclosure Schedule, the execution, delivery, or performance of the Transaction Agreements by MDI or HCS and the consummation of the Transaction will not: (i) violate or conflict with the charter documents or Bylaws of MDI or HCS; (ii) violate or conflict with any law, regulation, order, judgment, award, administrative interpretation, injunction, writ, or decree applicable to MDI or HCS or by which either of them or any of their assets or the Technologies are bound, or any agreement or understanding between any administrative or regulatory authority, on the one hand, and MDI or HCS on the other hand which would have a material adverse effect on the business of MDI or HCS taken as a whole or on the Technologies; or (iii) violate or conflict with, result in a material breach of, result in or permit the acceleration or termination of, or constitute a default under any agreement, instrument or understanding to which such MDI or HCS is a party or by which it or any of their assets or the Technologies are bound which would have a material adverse effect on any of their assets.

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2.4 Title to Technologies. At the Closing, MDI and HCS will transfer to ASC good and indefeasible title to all of the Technologies, free and clear of all Encumbrances, other than Permitted Encumbrances.

2.5 Capitalization, Etc.

a) The authorized capital stock of MDI consists of 100,000,000 shares of Common Stock (with no par value), of which 25,656,959 shares have been issued and are outstanding as of the date of this Agreement and will be issued and outstanding at the Closing Date. All of the outstanding shares of MDI Common Stock have been duly authorized and validly issued, and are fully paid and non-assessable.

b) MDI has reserved a total of _____ shares of MDI Common Stock for issuance under MDI Options Schedule 2.5(b) accurately sets forth, with respect to each MDI Option that is outstanding as of the date of this Agreement: (i) the name of the holder of such MDI Option; (ii) the total number of shares of MDI Common Stock that are subject to such MDI Option; (iii) the exercise price per share of MDI Common Stock purchasable under such MDI Option; and (iv) whether such MDI Option has been designated an "incentive stock option" as defined in Section 422 of the Internal Revenue Code.

c) Except as set forth in Schedule 2.5(b) of the MDI Disclosure Schedule, there is no: (i) outstanding subscription, option, call, warrant or right (whether or not currently exercisable) to acquire any shares of the capital stock or other securities of MDI; (ii) outstanding security, instrument or obligation that is or may become convertible into or exchangeable for any shares of the capital stock or other securities of MDI; (iii) Contract under which MDI is or may become obligated to sell or otherwise issue any shares of its capital stock or any other securities; or (iv) to the Knowledge of MDI condition or circumstance that could reasonably be expected to give rise to or provide a basis for the assertion of a claim by any Person to the effect that such Person is entitled to acquire or receive any shares of capital stock or other securities of MDI.

d) All outstanding shares of MDI Common Stock and all outstanding MDI Options have been issued and granted in compliance with (i) all applicable securities laws and other applicable Legal Requirements, and (ii) all material requirements set forth in applicable Contracts.

e) Except as set forth in Schedule 2.5(e) of the MDI Disclosure Schedule, all of the outstanding shares of capital stock of each of the MDI subsidiaries are validly issued (in compliance with all applicable securities laws and other Legal Requirements and applicable MDI Contracts), fully paid and nonassessable and are owned beneficially by MDI, free and clear of any Encumbrance.

2.6 Contracts.

a. Schedule 2.6(a) of the MDI Disclosure Schedule identifies:

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i. each MDI Contract relating to the employment of, the performance of services by, any employee, consultant or independent contractor that is not terminable on 60 days or less notice or involves payments or other liabilities in excess of \$25,000 per

year;

- ii. each MDI Contract imposing any restriction on MDI's right or ability (A) to compete with any other Person or (B) to acquire any product or other asset or any services from any other Person, to sell any product or other asset to or perform any services for any other Person or to transact business or deal in any other manner with any other Person;
- iii. each MDI Contract involving the acquisition, issuance or transfer of any equity securities (other than those that have been fully performed);
- iv. each MDI Contract involving the creation of any Encumbrance (other than Permitted Encumbrances) with respect to any material property or asset of MDI or HCS;
- v. each MDI Contract involving or incorporating any material guaranty, any material pledge, any material performance or completion bond, any material indemnity or any material surety arrangement;
- vi. each MDI Contract creating any partnership or joint venture or any sharing of revenues, profits, losses, costs or liabilities;
- vii. each MDI Contract involving the purchase or sale of any product or other asset by or to, or the performance of any services by or for, any Related Party (as defined in Section 2.22);
- viii. each MDI Contract involving the purchase or sale of any real or personal property having a value in excess of \$25,000;
- ix. any other MDI Contract of MDI that was entered into outside the ordinary course of business or was inconsistent with MDI's past practices, that has a term of greater than one year and that may not be terminated without penalty, within 90 days;
- x. any other MDI Contract that (A) has a term of more than 90 days and that may not be terminated by MDI (without penalty) within 90 days after the delivery of a termination notice by MDI; and (B) involves the payment or delivery of cash or other consideration in an amount or having a value, or the performance

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of services having a value, in excess of \$25,000 in any one year; and

- xi. any other MDI Contract which is material to the business of MDI or requiring expenditures by MDI in excess of \$25,000 in any one year,
- b) (Contracts in the respective categories described in clauses "(i)" through "(xi)" above are referred to in this Agreement as "MDI Material Contracts".)
- a. MDI has delivered or made available to Harvest Group accurate and complete copies of all written MDI Material Contracts identified in Schedule 2.6(b) of the MDI Disclosure Schedule, including all amendments thereto. Schedule 2.6(b) of the MDI Disclosure Schedule provides an accurate description of the terms of each MDI Material Contract that is not in written form. Except as set forth in Schedule 2.6(b) of the MDI Disclosure Schedule, each MDI Material Contract identified in Schedule 2.6(b) of the MDI Disclosure Schedule is valid and in full force and effect, and is enforceable by MDI in accordance with its terms, subject to (i) laws of general application relating to bankruptcy, insolvency and the relief of debtors, and (ii) rules of law governing specific performance, injunctive relief and other equitable remedies.
 - b. Except as set forth in Schedule 2.6(c) of the MDI Disclosure Schedule:
 - i. MDI has not violated or breached, or committed any default under, any MDI Material Contract, and, to the Knowledge of MDI, no other Person has violated or breached, or committed any default under, any MDI Material Contract;
 - ii. no event has occurred, and no circumstance or condition exists, that (with or without notice or lapse of time) will, or could reasonably be expected to, (A) result in a violation or breach by MDI (or, to the Knowledge of MDI, any

other Person) of any of the provisions of any MDI Material Contract, (B) give MDI (or, to the Knowledge of MDI, any other Person) the right to declare a default or exercise any remedy under any MDI Material Contract, (C) give MDI (or, to the Knowledge of MDI, any other Person) the right to accelerate the maturity or performance of any MDI Material Contract, or (D) give any Person the right to cancel, terminate or modify any MDI Material Contract;

- iii. MDI has not received any notice or other communication regarding any actual or alleged violation or breach of, or default under, any MDI Material Contract that has not been cured or is of a continuing or repetitive nature; and

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- iv. MDI has not waived any of its material rights under any MDI Material Contract.

- c. Schedule 2.6(d) of the MDI Disclosure Schedule identifies and provides a brief description of each proposed MDI Material Contract as to which any bid, offer, award, written proposal, term sheet or similar document has been submitted or received by MDI since the date of the Unaudited Interim Balance Sheet.

2.7 Assumption of Executory Contracts. Attached hereto as Schedule 2.7 of the MDI Disclosure Schedule is a complete and accurate list of all contracts to be assumed and assigned by MDI and/or HCS to ASC (the "Assumed Contracts"). Notwithstanding anything herein to the contrary, all such Assumed Contracts will be transferred, conveyed and assigned to ASC at the Closing with all rights, title and interests therein and thereto as part of the Assumed Liabilities.

2.8 Financial Statements.

- a. MDI has delivered to ASC and to the Harvest Group the following financial statements and notes (collectively, the "MDI Financial Statements"), copies of which are attached as Schedule 2.8(a) of the MDI Disclosure Schedule:
 - i. the audited consolidated balance sheet of MDI as of December 31, 1999, the audited consolidated balance sheet of MDI as of December 31, 1998, and the related audited consolidated income statements, statements of stockholders' equity and statements of cash flows of MDI for the years then ended, together with the notes thereto and the unqualified report and opinion of MDI's auditor relating thereto; and
 - ii. the unaudited consolidated balance sheet of MDI as of March 31, 2000 (the "Unaudited Interim Balance Sheet"), and the related unaudited consolidated income statement, statement of stockholders' equity and statement of cash flows of MDI for the nine (9) month period then ended.
- b. The MDI Financial Statements present fairly, in all material respects, the consolidated financial position of MDI as of the respective dates thereof and the consolidated results of operations of MDI for the periods covered thereby. The MDI Financial Statements have been prepared in accordance with generally accepted accounting principles ("GAAP") applied on a consistent basis throughout the periods covered, except as may be indicated in the notes to such financial statements (except that the financial statements referred to in Section 2.8(a) (ii) do not contain footnotes and are subject to normal and recurring year-end audit adjustments, which will not, individually or in the aggregate, be material in magnitude).

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2.9 Absence of Changes. Except as set forth in Schedule 2.9 of the MDI Disclosure Schedule, since December 31, 1999:

- a. There has not been any Material Adverse Effect in the business, condition, assets, liabilities, operations or financial performance of MDI, considered as a whole, and, to the Knowledge of MDI, no event has occurred that will, or could reasonably be expected to, have a Material Adverse Effect on MDI;
- b. Except as would not, individually or in the aggregate have, or be reasonably likely to have, a Material Adverse Effect on MDI, there has not been any loss, damage or destruction to, or any interruption in the use of, any of MDI's properties or assets

(whether or not covered by insurance);

- c. MDI has not declared, accrued, set aside or paid any dividend or made any other distribution in respect of any shares of capital stock, and has not repurchased, redeemed or otherwise reacquired any shares of capital stock or other securities;
- d. MDI has not sold, issued or authorized the issuance of (i) any capital stock or other security (except for MDI Common Stock issued upon the exercise of outstanding MDI Options), (ii) any option or right to acquire any capital stock or any other security (except for MDI Options described in Schedule 2.5 of the MDI Disclosure Schedule), or (iii) any instrument convertible into or exchangeable for any capital stock or other security;
- e. There has been no amendment to MDI's Certificate of Incorporation or bylaws, and MDI has not effected or been a party to any MDI Acquisition Transaction, recapitalization, reclassification of shares, stock split, reverse stock split or similar transaction;
- f. MDI has not formed any subsidiary or acquired any equity interest or other interest in any other Entity;
- g. MDI has not amended or prematurely terminated, or waived any material right or remedy under, any such Material Contract;
- h. MDI has not, (i) except as set forth in Disclosure Schedule 2.9, acquired, leased or licensed any right, real or personal property or other asset from any other Person having a value in excess of \$25,000, (ii) sold or otherwise disposed of, or leased or licensed, any right, real or personal property or other asset to any other Person having a value in excess of \$25,000, or (iii) waived or relinquished any right, except for immaterial rights or other immaterial properties or assets acquired, leased, licensed or disposed of in the ordinary course of business and consistent with MDI's past practices, taken as a whole;

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- i. MDI has not written off as uncollectible, or established any extraordinary reserve with respect to, any material amount of account receivables or other indebtedness;
- j. MDI has not made any pledge of any of its properties or assets, except for pledges of immaterial properties or assets made in the ordinary course of business and consistent with MDI's past practices, taken as a whole;
- k. MDI has not (i) lent money to any Person, other than pursuant to routine travel advances made to employees in the ordinary course of business and other than loans made in the ordinary course of business and consistent with past practice in an amount not in excess of \$5,000 to any one Person, or (ii) incurred or guaranteed any indebtedness for borrowed money;
- l. MDI has not (i) established, adopted amended or entered into, any employee benefit plan, program, agreement or arrangement, (ii) paid any bonus or made any profit-sharing or similar payment to, or increased the amount of the wages, salary, commissions, fringe benefits or other compensation or remuneration payable to, any of its directors, officers or employees other than in the ordinary course of business and consistent with past practice, (iii) hired any new employee having an annual salary in excess of \$25,000 or (iv) adopted or amended any severance plan or arrangement or entered into any employment or severance agreement, or entered into or amended any other plan, arrangement or agreement providing for the payment of any benefit or acceleration of any options upon a change in control or a termination of employment, or (v) committed to do any of the foregoing.
- m. MDI has not changed any of its methods of accounting or accounting practices in any material respect;
- n. MDI has not commenced or settled any material Legal Proceeding;
- o. MDI has not entered into any material transaction or taken any other material action outside the ordinary course of business or inconsistent with its past practices; and

- p. MDI has not agreed or committed to take any of the actions referred to in clauses "(c)" through "(n)" above.

2.10 Receivables. Schedule 2.10 of the MDI Disclosure Schedule provides an accurate and complete breakdown and aging of all accounts receivable, notes receivable and other receivables of MDI, as of March 31, 2000. Except as set forth in Schedule 2.10 of the MDI Disclosure Schedule, all existing accounts receivable of MDI (including those accounts receivable reflected on the Unaudited Interim Balance Sheet that have not yet been collected and those accounts receivable that have arisen since March 31, 2000 and have not yet been collected) represent valid obligations of customers arising from bona fide transactions.

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2.11 Liabilities. MDI has not any accrued, contingent or other liabilities of any nature, either matured or unmatured (whether or not required to be reflected in financial statements in accordance with GAAP, and whether due or to become due), except for: (a) liabilities identified as such in the "liabilities" column of the Unaudited Interim Balance Sheet; (b) accounts payable or accrued salaries that have been incurred by MDI since March 31, 2000 in the ordinary course of business and consistent with MDI's past practices; (c) liabilities under MDI's Material Contracts identified in Schedule 2.6(a) of the MDI Disclosure Schedule, to the extent the nature and magnitude of such liabilities can be specifically ascertained by reference to the text of such MDI Material Contracts; and (d) the liabilities identified in Schedule 2.11 of the Disclosure Schedule.

2.12 Compliance With Legal Requirements to the Knowledge of MDI. Except as set forth in Schedule 2.12 of the MDI Disclosure Schedule, MDI is, and has at all times since December 31, 1996, been in compliance with all applicable Legal Requirements, except where the failure to comply with such Legal Requirements has not had, and is not reasonably likely to have, a Material Adverse Effect on MDI. Except as set forth in Schedule 2.12 of the MDI Disclosure Schedule, since December 31, 1996, MDI has not received any notice or other communication from any Governmental Body regarding any actual or possible violation of, or failure to comply with, any Legal Requirement that could have, or be reasonably likely to have, a Material Adverse Effect on MDI.

2.13 Governmental Authorizations. Schedule 2.13 of the MDI Disclosure Schedule identifies each Governmental Authorization held by MDI, the absence of which would have, or be reasonably likely to have, a Material Adverse Effect on MDI, and MDI has delivered or made available to ASC and HCS accurate and complete copies of all Governmental Authorizations identified in Schedule 2.13 of the MDI Disclosure Schedule. To the Knowledge of MDI, the Governmental Authorizations identified in Schedule 2.13 of the MDI Disclosure Schedule are valid and in full force and effect. The Governmental Authorizations identified in Schedule 2.13 of the MDI Disclosure Schedule collectively constitute all Governmental Authorizations necessary to enable MDI to conduct its business in the manner in which its business is currently being conducted, except as would not have, or be reasonably likely to have, a Material Adverse Effect on MDI. To the Knowledge of MDI, it is, and at all times since December 31, 1996, has been in substantial compliance with the terms and requirements of the respective Governmental Authorizations identified in Schedule 2.13 of the MDI Disclosure Schedule except for any failure to comply that would not have, or be reasonably likely to have, a Material Adverse Effect on MDI. Since December 31, 1996, MDI has not received any notice or other communication from any Governmental Body regarding (a) any actual or possible violation of or failure to comply with any term or requirement of any Governmental Authorization, or (b) any actual or possible revocation, withdrawal, suspension, cancellation, termination or modification of any Governmental Authorization, except for any of the foregoing that would not have, or be reasonably likely to have, a Material Adverse Effect on MDI.

2.14 Tax Matters.

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- a. Except as set forth in Schedule 2.14(a) of the MDI Disclosure Schedule, all Tax Returns required to be filed by or on behalf of MDI with any Governmental Body with respect to any taxable period ending on or before the Closing Date (the "MDI Returns") (i) have been or will be filed on or before the applicable due date (including any extensions of such due date), and (ii) have been, or will be when filed, accurately and completely prepared in all material respects in compliance with all applicable Legal Requirements. All amounts shown on the MDI Returns to be due on or before the Closing Date have been or will be paid on or before the Closing Date. MDI has delivered or made available to the Harvest Group and ASC accurate and complete copies of all MDI Returns that have been requested by the Harvest Group and

ASC.

- b. The MDI Financial Statements fully accrue all actual and contingent liabilities for Taxes with respect to all periods through the dates thereof in accordance with GAAP. MDI will establish, in the ordinary course of business and consistent with its past practices, reserves adequate for the payment of all Taxes through than Closing Date.
- c. Except as set forth in Schedule 2.14(c) of the MDI Disclosure Schedule, there have been no examinations or audits of any MDI Return by any Governmental Body.
- d. Except as set forth in Schedule 2.14(d) of the MDI Disclosure Schedule, no claim or proceeding is pending or, to the Knowledge of MDI, has been threatened against or with respect to MDI in respect of any Tax. There are no liens for Taxes upon any of the assets of MDI except liens for current Taxes not yet due and payable.
- e. Except as set forth in Schedule 2.14(e) of the MDI Disclosure Schedule, MDI has received no written notice of any claim by any authority in a jurisdiction where it does not file Tax Returns that MDI is or may be subject to taxation in that jurisdiction.

2.15 Employee And Labor Matters; Benefit Plans.

- a. Schedule 2.6(a) and 2.15(a) of the MDI Disclosure Schedule identify each written or unwritten salary, employment, bonus, deferred compensation, incentive compensation, stock purchase, stock option, severance pay, termination pay, hospitalization, medical, life or other insurance, supplemental unemployment benefits, profit-sharing, pension or retirement plan, program, arrangement or agreement (collectively, the "Plans") sponsored, maintained, contributed to or required to be contributed to by MDI for the benefit of any current or former employee or director (or any beneficiary of the foregoing) of MDI (each, an "Employee"), or pursuant to which MDI may have liability (contingent or otherwise).

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- b. Except as set forth in Schedule 2.15(b) of the MDI Disclosure Schedule, MDI does not maintain, sponsor or contribute to, or has at any time in the past maintained, sponsored or contributed to, any employee pension benefit plan (as defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")), whether or not excluded from coverage under specific Titles or Subtitles of ERISA.

2.16 Title and Related Matters. MDI has good and marketable title to all of its inventory, interests in properties and other assets, which are reflected in the Unaudited Interim Balance Sheet or acquired after that date (except properties, interests in properties, and assets sold or otherwise disposed of since such date in the ordinary course of business), free and clear of all mortgages, liens, pledges, charges or encumbrances, except (i) statutory liens or claims not yet delinquent; (ii) such imperfections of title and easements as do not and will not materially detract from or interfere with the present or proposed use of the assets or properties subject thereto or affected thereby or otherwise materially impair present business operations on such properties or in connection with such assets; and (iii) such liens as are described in the Unaudited Interim Balance Sheet or in Schedule 2.16 of the MDI Disclosure Schedule. MDI owns, free and clear of any liens, claims, encumbrances, royalty interests and other restrictions or limitations of any nature whatsoever, any and all procedures, techniques, business plans, methods of management and other information utilized in the conduct of its business or operations, whether or not the value thereof is reflected in the most recent balance sheet. The offices and equipment of MDI that are necessary or used in the operations of its business are in good operating condition and repair, normal wear and tear accepted.

2.17 Intellectual Property. Schedule 2.17 of the MDI Disclosure Schedule contains a complete list and description of all MDI's United States and foreign (a) patents and patent applications; (b) trademark registrations and applications for trademark registration; (c) copyright registrations and applications for copyright registrations; (d) unregistered trademarks, trade names, service marks and copyrights; and (e) unpatented trade secrets. MDI wholly owns the exclusive rights to all of the above-described intellectual property and there are no existing or known threatened claims of any third party challenging the ownership, scope or validity of any of the said intellectual property; there is no infringing use by any Person or entity of any of the intellectual property; and there has been no disclosure of any of the trade secrets to any Person other than Persons who have executed confidentiality or

non-competition agreements.

2.18 Real Property Leaseholds. MDI leases its facilities pursuant to the leases identified in the attached Schedule 2.18 of the MDI Disclosure Schedule. MDI is not bound by any other real property leases and MDI does not own any real property.

2.19 Inventory. All inventory of MDI, whether or not reflected in its most recent Balance Sheet, consists of a quality and quantity usable and salable in the ordinary course of business, except for obsolete items and items of below-standard quality, all of which have been written off or written down to net realizable value in the Balance Sheet or on the accounting records of MDI as of the Closing Date, as the case may be. All inventories not written off

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have been priced at the lower of cost or market on a first in, first out basis. The quantities of each item of inventory are not excessive, but are reasonable in the present circumstances of MDI.

2.20 Environmental Matters.

- a. Neither MDI nor any predecessor of MDI (i) has violated and is not in violation of any Environmental Law; (ii) none of the properties owned or leased by MDI (including, without limitation, soils and surface and ground waters) are contaminated with any Hazardous Substance; (iii) MDI is not actually or potentially nor allegedly liable for any off-site contamination; (iv) MDI is not actually or potentially nor allegedly liable under any Environmental Law (including, without limitation, pending or threatened liens); (v) MDI has all permits, licenses and other authorization required under any Environmental Law ("Environmental Permits"); and (vi) MDI has always been and is in compliance with its Environmental Permits.
- b. Neither MDI nor any of its predecessors, or their respective subsidiaries or joint ventures, have any material Environmental Liabilities, and none of such parties have had within the five (5) years preceding the date hereof a material release of Hazardous Substances into the environment in violation of any Environmental Law or Environmental Permit.
- c. For the purposes of this Section 2.20, the following terms have the following meanings:
 - b) "Environmental Laws" shall mean any and all federal, state and local laws (including case law), regulations, ordinances, rules, judgments, orders, decrees, codes, plans, injunctions, permits, concessions, grants, franchises, licenses, agreements and governmental restrictions relating to (i) human health, the environment or to emissions, discharges or releases of pollutants, contaminants, Hazardous Substances or wastes into the environment; (ii) the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutant, contaminants, Hazardous Substances or wastes or the clean up or other remediation thereof; or (3) the pollution of the environment or the protection of human health.
 - c) "Environmental Liabilities" shall mean all liabilities, whether vested or unvested, contingent or fixed, which (i) arise under or relate to Environmental Laws and (ii) relate to actions occurring or conditions existing on or prior to the Effective Time.
 - d) "Hazardous Substances" shall mean (1) those substances defined in or regulated under the following federal statutes and their state counterparts, as each may be

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amended from time to time, and all regulations thereunder: the Hazardous Materials Transportation Act, the Resources Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Clean Air Act, the Safe Drinking Water Act (Clean Water Act), the Atomic Energy Act, the Federal Insecticide, Fungicide, and Rodenticide Act and the Substances Control Act; (2) petroleum and petroleum products including crude oil and any fractions thereof; (3) natural gas, synthetic gas, natural gas liquids and any mixtures thereof; (5) any substance with respect to which a Governmental Authority requires environmental investigation, monitoring, reporting or remediation.

2.21 Certain Payments. Since its inception, neither MDI nor, to the best knowledge of MDI, any director, officer, agent, or employee of MDI or any other Person associated with or acting for or on behalf of MDI, has directly or indirectly (a) made any contribution, gift, bribe, rebate, payoff, influence payment, kickback, or other payment to any Person, private or public, regardless of form, whether in money, property, or services (i) to obtain favorable treatment in securing business, (ii) to pay for favorable treatment for business secured, (iii) to obtain special concessions or for special concessions already obtained, for or in respect of MDI or any affiliate of MDI, or (iv) in violation of any legal requirement, (b) established or maintained any fund or asset that has not been recorded in the books and records of MDI.

2.22 Relationships with Related Persons. To the best knowledge of MDI, no MDI Shareholder nor any Related Person of any MDI shareholder has, or since the inception of MDI has had, any interest in any property (whether real, personal, or mixed and whether tangible or intangible), used in or pertaining to MDI. To the best knowledge of MDI, no MDI shareholder or any Related Person of any MDI shareholder is, or since the inception of MDI has owned (of record or as a beneficial owner) an equity interest or any other financial or profit interest in, a Person that has (i) had business dealings or a material financial interest in any transaction with MDI, other than business dealings or transactions conducted in the ordinary course of business at substantially prevailing market prices and on substantially prevailing market terms, or (ii) engaged in competition with MDI with respect to any line of the products or services of MDI (a "Competing Business") in any market presently served by MDI. Except as set forth in Schedule 2.22, no MDI shareholder or any Related Person of any MDI shareholder is a party to any Contract with, or has any claim or right against, MDI.

2.23 Brokers. Except for agreements with Holonomic Resource and Marlin Toombs, MDI has not incurred nor will it incur any brokerage, finders, or similar fee in connection with the Transaction.

2.24 Insurance. Schedule 2.24 of the MDI Disclosure Schedule identifies all insurance policies maintained by, at the expense of or for the benefit of MDI and identifies any material claims currently outstanding there under, and MDI has delivered or made available to the Harvest Group and ASC accurate and complete copies of the insurance policies identified in Schedule 2.24 of the MDI Disclosure Schedule. Each of the insurance policies identified in Schedule 2.24 of the MDI Disclosure Schedule is in full force and effect. Since December 28,

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1997, MDI has not had any notice or other communication regarding any actual or possible (a) cancellation or invalidation of any insurance policy, (b) refusal of any coverage or rejection of any covered claim under any insurance policy, or (c) material adjustment in the amount of the premiums payable with respect to any insurance policy.

2.25 Legal Proceedings; Orders.

a. Except as set forth in Schedule 2.25(a) of the MDI Disclosure Schedule, there is no pending Legal Proceeding, and (to the Knowledge of MDI) no Person has threatened to commence any Legal Proceeding: (i) that involves MDI or any of the properties or assets owned or used by MDI; or (ii) that challenges, or that could reasonably be expected to have the effect of preventing, delaying, making illegal or otherwise interfering with, the Transaction. To the Knowledge of MDI, except as set forth in Schedule 2.25(a) of the MDI Disclosure Schedule, no event has occurred, and no claim, dispute or other condition or circumstance exists, that will, or that could reasonably be expected to, give rise to or serve as a basis for the commencement of any such Legal Proceeding.

b. Except as set forth in Schedule 2.25(b) of the MDI Disclosure Schedule, there is no order, writ, injunction, judgment or decree to which MDI, or any of the properties or assets owned or used by MDI, is subject, that will have, or reasonably likely to have, a Material Adverse Effect on MDI. To the Knowledge of MDI, no officer or other employee of MDI is subject to any order, writ, injunction, judgment or decree that prohibits such officer or other employee from engaging in or continuing any conduct, activity or practice relating to the business of MDI that will have, or be reasonably likely to have, a Material Adverse Effect on MDI.

2.26 SEC Reports. Except as set forth in Schedule 2.26 of the MDI Disclosure Schedule MDI has made all filings with the SEC that it has been required to make within the past two years under the Securities Act and the Securities Exchange Act (collectively the "Public Reports"). Each of the Public Reports has complied with the Securities Act and the Securities Exchange Act in all material respects. None of the Public Reports, as of their respective dates, contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. MDI has delivered to the Harvest Group and ASC a correct and complete copy of each Public Report (together with all exhibits and schedules thereto and as amended to date).

2.27 Board Action; Vote Required. The MDI's Board of Directors has approved this Agreement and the Transaction and has determined that the Transaction is fair to and in the best interests of MDI and its stockholders.

2.28 Information. The information concerning MDI set forth in this Agreement and in MDI Disclosure Schedule is complete and accurate in all material respects and does not contain any untrue statement of material fact or omit to state a material fact required to make the statements made in light of the circumstances under which they were made not misleading.

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ARTICLE III - REPRESENTATIONS AND WARRANTIES OF THE HARVEST GROUP

The Harvest Group represents and warrants to ASC and to MDI that the statements contained in this Article III are materially correct and complete as of the date of this Agreement and will be materially correct and complete as of the Closing Date except as set forth in the disclosure schedule accompanying this Agreement (the "Harvest Group Disclosure Schedule"). The Disclosure Schedule will be arranged in paragraphs corresponding to the numbered paragraphs contained in this Agreement.

3.1 Organization; Good Standing. The Harvest Group is a limited liability company duly organized validly existing and in good standing under the laws of its State of Utah and has all requisite corporate power and authority to own its assets and to carry on its business as currently conducted. The Harvest Group is duly qualified and licensed to do business and is in good standing in all jurisdictions where the nature of its business makes such qualification necessary except those jurisdictions wherein the failure to so qualify could not have material adverse effect on the business of the Harvest Group.

3.2 Authority; Binding Nature of Agreement. The Harvest Group has full power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by the Harvest Group and the performance by it of its obligations hereunder have been approved by the Manager and the Members of the Harvest Group, and no other proceedings on the part of the Harvest Group are necessary to authorize the execution and delivery of this Agreement or the consummation by the Harvest Group of the Transaction. This Agreement has been duly executed and delivered by the Harvest Group and this Agreement constitutes the valid and legally binding obligation of the Harvest Group, enforceable in accordance with its terms and conditions subject to (i) laws of general application relating to bankruptcy, insolvency and the relief of debtors, and (ii) rules of law governing specific performance, injunctive relief and other equitable remedies.

3.3 Approvals and Consents; Non-Contravention.

a. Except as otherwise set forth in Schedule 3.3 (a) of the Harvest Group Disclosure Schedule, no consent, approval, or other action by, or notice to or registration or filing with, any governmental or administrative agency or authority is required or necessary to be obtained by the Harvest Group in connection with the execution, delivery or performance of the Transaction Agreements by it or the consummation of the Transaction. Except as otherwise set forth in Schedule 3.3(a) of the Harvest Group Disclosure Schedule, no consent, approval, or other action by, or notice to or registration or filing with, any governmental or administrative agency or authority is required or necessary to be obtained by the Harvest Group in connection with the execution, delivery or performance of the Transaction Agreements by it or the consummation of the Transaction.

b. Except as otherwise set forth in Schedule 3.3(b) of the Harvest Group Disclosure Schedule, no consent, approval, waiver or other action by any Person under any Harvest Group Material Contract, agreement, instrument, or other document, or obligation to which either Seller is a party or by which it or any of its assets are bound, is required or

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necessary for the execution, delivery, and performance of the Transaction Agreements by the Harvest Group or the consummation of the Transaction except as may be specifically required by the terms of any Contract. Except as otherwise set forth in Schedule 3.3(b) of the Harvest Group Disclosure Schedule, no consent, approval, waiver or other action by any Person under any Harvest Group Material Contract, agreement, instrument, or other document, or obligation to which either Seller is a party or by which it or any of its assets are bound, is required or necessary for a execution, delivery, and performance of the Transaction Agreements by the Harvest Group or the consummation of the Transaction except as may be specifically required by the terms of any Contract.

c. Except as forth in Schedule 3.3(c) of the Harvest Group

Disclosure Schedule, the execution, delivery, or performance of the Transaction Agreements by the Harvest Group and the consummation of the Transaction will not: (i) violate or conflict with the Articles of Organization or Operating Agreement of the Harvest Group; (ii) violate or conflict with any law, regulation, order, judgment, award, administrative interpretation, injunction, writ, or decree applicable to the Harvest Group or any agreement or understanding between any administrator or regulatory authority, on the one hand, and the Harvest Group on the other hand which would have a material adverse effect on the business of the Harvest Group taken as a whole; or (iii) violate or conflict with, result in a material breach of, result in or permit the acceleration or termination of, or constitute a default under any agreement, instrument or understanding to which the Harvest Group is a party or by which it is bound which would have a material adverse effect on any of its assets taken as a whole.

3.4 Brokers. The Harvest Group has not incurred nor will it incur any brokerage, finders, or similar fee in connection with the Transaction.

ARTICLE IV - REPRESENTATIONS AND WARRANTIES OF ASC

ASC represents and warrants to the Harvest Group and to MDI that the statements contained in this Article IV are materially correct and complete as of the date of this Agreement and will be materially correct and complete as of the Closing Date except as set forth in the disclosure schedule accompanying this Agreement (the "ASC Disclosure Schedule"). The Disclosure Schedule will be arranged in paragraphs corresponding to the numbered paragraphs contained in this Agreement.

4.1 Organization; Good Standing. ASC is a corporation duly organized validly existing and in good standing under the laws of its State of Utah and has all requisite corporate power and authority to own its assets and to carry on its business as currently conducted. ASC is duly qualified and licensed to do business and is in good standing in all jurisdictions where the nature of its business makes such qualification necessary, except those jurisdictions wherein the failure to so qualify could not have material adverse effect on the business of ASC.

4.2 Authority; Binding Nature of Agreement. ASC has full power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by ASC and the performance by it of its obligations hereunder have been approved by the Manager and the Members of ASC and no other proceedings on the

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part of ASC are necessary to authorize the execution and delivery of this Agreement or the consummation by ASC of the Transaction. This Agreement has been duly executed and delivered by ASC and this Agreement constitutes the valid and legally binding obligation of ASC, enforceable in accordance with its terms and conditions subject to (i) laws of general application relating to bankruptcy, insolvency and the relief of debtors, and (ii) rules of law governing specific performance, injunctive relief and other equitable remedies.

4.3 Approvals and Consents; Non-Contravention.

a. Except as otherwise set forth in Schedule 4.3(a) of the ASC Disclosure Schedule, no consent, approval, or other action by, or notice to or registration or filing with, any governmental or administrative agency or authority is required or necessary to be obtained by ASC in connection with the execution, delivery or performance of the Transaction Agreements by it or the consummation of the Transaction. Except as otherwise set forth in Schedule 4.3(a) of the ASC Disclosure Schedule, no consent, approval, or other action by, or notice to or registration or filing with, any governmental or administrative agency or authority is required or necessary be obtained by ASC in connection with the execution, delivery or performance of the Transaction Agreements by it or the consummation of the Transaction.

b. Except as otherwise set forth in Schedule 4.3(b) of the ASC Disclosure Schedule, no consent, approval, waiver or other action by any Person under any ASC Material Contract, agreement, instrument, or other document, or obligation to which either Seller is a party or by which it or any of its assets are bound, is required or necessary for the execution, delivery, and performance of the Transaction Agreements by ASC or the consummation of the Transaction except as may be specifically required by the terms of any Contract. Except as otherwise set forth in Schedule 4.3(b) of the ASC Disclosure Schedule, no consent, approval, waiver or other action by any Person under any ASC Material Contract, agreement, instrument, or other document, or obligation to which either Seller is a party or by which it or any of its assets are bound, is required or necessary for the execution, delivery, and performance of the Transaction Agreements by ASC or the consummation of the Transaction except as may be specifically required by the terms of any Contract.

c. Except as forth in Schedule 4.3(e) of the Harvest Group

Disclosure Schedule, the execution, delivery, or performance of the Transaction Agreements by the Harvest Group and the consummation of the Transaction will not: (i) violate or conflict with the Articles of Organization or Operating Agreement of ASC; (ii) violate or conflict with any law, regulation, order, judgment, award, administrative interpretation, injunction, writ, or decree applicable to ASC or agreement or understanding between any administrative or regulatory authority, on the one hand, and ASC on the other hand which would have a material adverse effect on the business of ASC taken as a whole; or (iii) violate or conflict with, result in a material breach of, result in or permit the acceleration or termination of, or constitute a default under any agreement, instrument or understanding to which ASC is a party or by which it is bound which would have a material adverse effect on any of its assets taken as a whole.

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4.4 Brokers. ASC has not incurred nor will it incur any brokerage, finder's, or similar fee in connection with the Transaction.

4.6 Financial Statements. ASC was only recently formed and has prepared no financial statements. As of the Closing Date, it will have assets of not less than \$250,000 and its liabilities will not exceed \$40,000.

4.7 Contracts. All contracts to which ASC is party to are set forth in Schedule 4.7 of the ASC Disclosure Schedule. All of such contracts are in full force and effect.

ARTICLE V - CONDITIONS TO CLOSING

The obligation of Parties to consummate the Transaction is subject to the fulfillment of each of the following conditions:

5.1 Representations. The representations and warranties by or on behalf of each Party contained in this Agreement shall be true in all material respects at the Closing as though such representations and warranties were made at and as of such time.

5.2 Compliance. Each Party shall have performed and complied with all covenants, agreements, and conditions required by this Agreement to be performed or complied with by it prior to or at the Closing.

5.3. Absence of Litigation. There shall not be any material litigation, proceeding or governmental investigation pending, threatened or reasonably believed by any Party Sellers to be in prospect pertaining to another Party or the Transaction,

5.4 No Bankruptcy Proceeding. No party shall be in a bankruptcy reorganization or other bankruptcy proceeding.

5.5 Consent to Assignment. All third parties required to consent to the assignment of the Technologies to ASC shall have given such consent in writing.

5.6 Completion of Due Diligence. The Harvest Group and ASC shall have completed their due diligence review of MDI except for the items listed in Schedule 5.6 and have concluded to proceed with this agreement.

5.7 Line of Credit. The line of credit provided for in Section 1.8 of this Agreement shall be available.

ARTICLE VI - TERMINATION

6.1 Termination. This agreement may be terminated at any time prior to the Closing Time:

a. by the mutual consent of the Parties;

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b. by any Party if another Party refuses or fails to perform any covenant or agreement required to be performed by it under this Agreement or if any representation or warranty of any other party proves to have been inaccurate or misleading in any material respect at the time it was made or at the Closing and the other party refuses or fails after notice to correct or make not misleading any such misrepresentation or warranty.

6.2 Effect of Termination. If this Agreement is terminated as permitted by Section 6.1 of this Agreement, such termination will be without liability of any party (or any shareholder, director, officer, employee, agent, consultant, or representative of such party) to the other parties to this Agreement;

provided, that if such termination results from the failure of a party to use its best efforts to fulfill a condition to the performance of the obligations of the other parties or to perform a covenant of this Agreement or from a breach by any party to this Agreement, such party will be fully liable up to a maximum of \$7,500 for any and all damages, costs, and expenses (including, but not limited to, reasonable counsel fees) sustained or incurred by the other parties as a result of such failure or breach.

ARTICLE VII- MISCELLANEOUS PROVISIONS

7.1 Expenses. Each Party shall pay the fees and expenses incurred by it in connection with the transactions contemplated by this Agreement.

7.2 Amendment. This Agreement may be amended at any time but only by an instrument in writing signed by the Parties.

7.3 Notices. All notices and other communications hereunder shall be in writing, shall be delivered personally or mailed by United States registered or certified mail, postage prepaid, return receipt requested, or by nationally recognized "next-day" delivery service, to the parties at the addresses set forth in Schedule 7.3 (or at such other address for a Party as shall be specified by like notice), and shall be deemed given upon the receipt or the refusal of the delivery thereof.

7.4 Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs and permitted assigns. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the Parties without the prior written consent of the others.

7.5 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

7.6 Headings. The headings of the Sections of this Agreement are inserted for convenience only and shall not constitute a part hereof

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7.7 Entire Agreement. This Agreement and the other Transaction Agreements, contain the entire understanding of the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, warranties, conveyances or undertakings other than those, expressly set forth herein. This Agreement supersedes any prior agreements and understandings between the parties with respect to the subject matter contained herein.

7.8 Waiver. No attempted waiver of compliance with any provision or condition hereof, or consent pursuant to this Agreement, will be effective unless evidenced by an instrument in writing by the party against whom the enforcement of any such waiver or consent is sought.

7.9 Governing Law. The terms of this agreement shall be governed by the laws of the State of Utah without regard to choice of law principles.

7.10 Dispute Resolution. (a) The parties each agree to attempt in good faith to resolve any controversy, claim or dispute arising out of or relating to the Agreement, or breach thereof (hereinafter collectively referred to as a "Dispute"). In the event such negotiations fail, the Dispute shall first be submitted for initial fact-finding mediation to a neutral third party reasonably acceptable to both the Sellers, on the one hand, and the Purchaser, on the other, in Utah or at such other place as the parties mutually agree. Such mediator shall be selected within thirty (30) days of written notice by either party to the other demanding such fact-finding mediation.

- a) In the event that the Parties cannot resolve the Dispute within sixty (60) days of the initial demand for such fact-finding mediation, each of the Parties reserve the right to demand, within 30 days thereafter, that the Dispute be submitted to arbitration. Any party may initiate an arbitration proceeding by a request in writing submitted to the other party. Thereupon, the Dispute shall be settled by arbitration in accordance with the American Arbitration Association, which shall appoint three (3) arbitrators, one of which shall be selected by the Harvest Group, one by MDI, and the third by the arbitrators selected by the parties (the "Arbitrators"). The arbitration shall be governed by the Commercial Arbitration Rules of the American Arbitration Association. The award rendered by the Arbitrators shall be final and enforcement upon the award may be entered by any court having jurisdiction thereof. The arbitration shall be conducted in Salt Lake City, Utah or at such other place as the Parties mutually agree. The Arbitrators shall award reasonable attorney's fees to the prevailing party. Subject to the foregoing, the costs of such fact-finding mediation and/or arbitration shall be borne equally by the Harvest Group and MDI.

Notwithstanding anything in this Section 8.10 to the contrary, either party may seek injunctive relief to enforce any non-competition or confidentiality obligations of the other party. NOTWITHSTANDING THE FOREGOING, THE DISPUTE RESOLUTIONS SET FORTH HEREIN ARE EXPRESSLY SUBJECT TO THE PROVISIONS OF THE CODE.

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7.11 Intended Beneficiaries. The rights and obligations contained in this Agreement are hereby declared by the parties hereto to have been provided expressly for the exclusive benefit of such entities as set forth herein and shall not benefit, and do not benefit, any unrelated third parties.

7.12 Mutual Contribution. The parties to this Agreement and their counsel have mutually contributed to its drafting. Consequently, no provision of this Agreement shall be construed against any Party on the ground that such party drafted the provision or caused it to be drafted or the provision contains a covenant of such Party.

7.13 Number and Gender. Where required by the context, each number (singular and plural) shall include all numbers and each gender shall include the feminine, masculine and neuter.

7.14 Severability. If any provisions of this Agreement as applied to any part or to any circumstance shall be adjudged by a court to be invalid or unenforceable, the same shall in no way affect any other provision of this Agreement, the application of such provision in any other circumstances or the validity or enforceability of this Agreement.

In Witness Whereof, the Parties have executed this Agreement as of the date first above written.

Medical Discoveries, Inc.
a Utah corporation

By: /s/

Dave Walker, Chairman of the Board

The Harvest Group, L.L.C.
a Utah Limited Liability Company

By: /s/

Rustin R. Howard, Manager

Advanced Sales Company, Inc.
a Utah corporation

By: /s/

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Rustin R. Howard, CEO/President

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This Schedule contains summary financial information extracted from the financial statements contained in the body of the accompanying Form 10-QSB and is qualified in its entirety by reference to such financial statements.

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