

MEDICAL DISCOVERIES INC  
Form 10QSB  
December 21, 2007

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UNITED STATES

**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 10-QSB**

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED March 31, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 0-12627

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**MEDICAL DISCOVERIES, INC.**

(Exact name of registrant as specified in its charter)

**Utah**

(State or other jurisdiction of incorporation organization)

**87-0407858**

(IRS Employer Identification No.)

**6033 W. Century Blvd, Suite 1090,**

**Los Angeles, California**

(Address of principal executive offices)

**90045**

(Zip Code)

**(310) 670-7911**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

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As of December 11, 2007, the issuer had 197,676,560 shares of common stock outstanding, which includes 22,837,593 shares of common stock currently held in escrow.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):  
Yes  No

Transitional Small Business Disclosure Format: Yes  No

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**MEDICAL DISCOVERIES, INC.**  
**For the quarter ended March 31, 2007**  
**FORM 10-QSB**

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## PART I

## ITEM 1. FINANCIAL STATEMENTS.

**MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES**  
**(A Development Stage Company)**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

|  | March 31,<br>2007 | December 31,<br>2006 |
|--|-------------------|----------------------|
| <b>ASSETS</b>  |                   |                      |
| <b>CURRENT ASSETS</b>  |                   |                      |
| Cash   | \$ 137,385        | \$ 47,658            |
| <b>Total Current Assets</b>  | 137,385           | 47,658               |
| <b>Property and Equipment, net</b>   | 733               | 789                  |
| <b>Assets held for sale</b>  | 57,059            | 61,460               |
| <b>TOTAL ASSETS</b>  | \$ 195,177        | \$ 109,907           |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>   |                   |                      |
| <b>CURRENT LIABILITIES</b>   |                   |                      |
| Accounts payable   | \$ 711,621        | \$ 663,691           |
| Accrued payroll and payroll taxes  | 1,244,848         | 1,184,264            |
| Accrued interest payable   | 275,112           | 267,739              |
| Notes payable to shareholders  | 56,000            | 56,000               |
| Convertible notes payable  | 193,200           | 193,200              |
| Financial instrument   | 100,969           | 294,988              |
| Current liabilities associated with assets held for sale   | 2,959,903         | 2,914,438            |
| <b>Total Current Liabilities</b>   | 5,541,653         | 5,574,320            |
| <b>LONG-TERM LIABILITY</b>   | 90,000            | 90,000               |
| <b>TOTAL LIABILITIES</b>   | 5,631,653         | 5,664,320            |
| <b>STOCKHOLDERS' DEFICIT</b>   |                   |                      |
| Preferred stock - undesignated, Series A, convertible; no par value;<br>50,000,000 shares authorized; 34,420 shares issued and outstanding;<br>(aggregate liquidation preference of \$3,442,000); the Company also<br>has designated a Series B with no shares issued or outstanding | 514,612           | 514,612              |
| Common stock, no par value; 250,000,000 shares authorized;<br>118,357,704 shares issued and outstanding  | 15,299,017        | 15,299,017           |
| Additional paid-in capital   | 1,348,020         | 1,056,020            |
| Deficit accumulated prior to the development stage   | (1,399,577)       | (1,399,577)          |
| Deficit accumulated during the development stage   | (21,198,548)      | (21,024,485)         |
| <b>Total Stockholders' Deficit</b>   | (5,436,476)       | (5,554,413)          |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>   | \$ 195,177        | \$ 109,907           |

The accompanying notes are an integral part of these condensed consolidated financial statements

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**MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES**  
**(A Development Stage Company)**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

|  | For the Three Months Ended<br>March 31, |             | From Inception of<br>the Development<br>Stage on<br>November 20, 1991<br>through<br>March 31,<br>2007 |
|--|---|-------------|---|
|  | 2007                                    | 2006        |   |
| Operating Expenses   |   |             |   |
| General and administrative                                   | \$ 251,327                              | \$ 89,835   | \$ 5,202,000  |
| Loss from Operations   | (251,327)                               | (89,835)    | (5,202,000)   |
| Other Income (Expenses)                                      |   |             |   |
| Unrealized gain (loss) on financial instrument               | 194,019                                 | (1,119,777) | 5,058,818   |
| Interest income  | 148                                     | 1,211       | 58,312  |
| Interest expense   | (7,740)                                 | (7,372)     | (1,193,360)   |
| Gain on debt restructuring                                   | -                                       | -           | 2,039,650   |
| Other income   | -                                       | -           | 906,485   |
| Total Other Income (Expenses)                                | 186,427                                 | (1,125,938) | 6,869,905   |
| Income (Loss) from Continuing Operations                     | (64,900)                                | (1,215,773) | 1,667,905   |
| Loss from Discontinued Operations                            | (109,163)                               | (355,693)   | (22,174,254)  |
| Net Loss   | (174,063)                               | (1,571,466) | (20,506,349)  |
| Preferred stock dividend from beneficial conversion feature  | -                                       | -           | (692,199)   |
| Net Loss Applicable to Common Shareholders                   | (174,063)                               | (1,571,466) | (21,198,548)  |
| Basic and Diluted Loss per Common Share:                     |   |             |   |
| Loss from Continuing Operations                              | \$ (0.000)                              | \$ (0.011)  |   |
| Loss from Discontinued Operations                            | \$ (0.001)                              | \$ (0.004)  |   |
| Net loss   | \$ (0.001)                              | \$ (0.015)  |   |
| Basic and Diluted Weighted-Average Common Shares Outstanding | 118,357,704                             | 107,895,212 |   |

The accompanying notes are an integral part of these condensed consolidated financial statements



**MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES**  
**(A Development Stage Company)**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

|  | For the Three Months Ended<br>March 31, |                | From Inception of the<br>Development Stage on<br>November 20, 1991<br>through<br>March 31,<br>2007 |
|--|---|----------------|--|
|  | 2007                                    | 2006           |  |
| <b>Cash Flows From Operating Activities</b>  |   |                |  |
| Net loss   | \$ (174,063)                            | \$ (1,571,466) | \$ (20,506,349)  |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities |   |                |  |
| Foreign currency transaction loss  | 34,058                                  | 7,425          | 95,079   |
| Gain on debt restructuring   | -                                       | -              | (2,039,650)  |
| Common stock issued for services, expenses, and litigation                               | -                                       | -              | 4,267,717  |
| Commitment for research and development obligation                                       | -                                       | -              | 2,378,445  |
| Depreciation   | 4,457                                   | 5,014          | 131,629  |
| Reduction of escrow receivable from research and development                             | -                                       | -              | 272,700  |
| Unrealized gain (loss) on financial instrument   | (194,019)                               | 1,119,777      | (5,058,818)  |
| Stock options and warrants granted for services  | 292,000                                 | 67,350         | 5,249,003  |
| Reduction of legal costs   | -                                       | -              | (130,000)  |
| Write-off of subscriptions receivable  | -                                       | -              | 112,500  |
| Impairment loss on assets  | -                                       | -              | 9,709  |
| Loss on disposal of equipment  | -                                       | -              | 30,364   |
| Write-off of receivable  | -                                       | -              | 562,240  |
| Note payable issued for litigation   | -                                       | -              | 385,000  |
| Changes in operating assets and liabilities  |   |                |  |
| Accounts receivable  | -                                       | -              | (7,529)  |
| Accounts payable   | 59,337                                  | (183,321)      | 3,432,804  |
| Accrued expenses   | 67,957                                  | 7,372          | 234,398  |
| Net Cash Provided by (Used in) Operating Activities                                      | 89,727                                  | (547,849)      | (10,580,758)   |
| <b>Cash Flows From Investing Activities</b>  |   |                |  |
| Increase in deposits   | -                                       | -              | (51,100)   |
| Purchase of equipment  | -                                       | -              | (221,334)  |
| Issuance of note receivable  | -                                       | -              | (313,170)  |
| Payments received on note receivable   | -                                       | -              | 130,000  |
| Net Cash Used in Financing Activities  | -                                       | -              | (455,604)  |
| <b>Cash Flows From Investing Activities</b>  |   |                |  |
| Issuance of common stock, preferred stock, and warrants for cash                         | -                                       | -              | 10,033,845   |
| Contributed equity   | -                                       | -              | 131,374  |
| Proceeds from notes payable  | -                                       | -              | 1,336,613  |



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|   |            |            |            |
|---|------------|------------|------------|
| Payments on notes payable                 | -          | -          | (801,287)  |
| Proceeds from convertible notes payable   | -          | -          | 571,702    |
| Payments on convertible notes payable     | -          | -          | (98,500)   |
| Net Cash Provided by Financing Activities | -          | -          | 11,173,747 |
| <b>Net Increase (Decrease) in Cash</b>    | 89,727     | (547,849)  | 137,385    |
| <b>Cash at Beginning of Period</b>        | 47,658     | 654,438    | -          |
| <b>Cash at End of Period</b>              | \$ 137,385 | \$ 106,589 | \$ 137,385 |

The accompanying notes are an integral part of these condensed consolidated financial statements

**MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES**  
**(A Development Stage Company)**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**Note 1 - Basis of Presentation***Unaudited Interim Consolidated Financial Statements*

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments and disclosures necessary for a fair presentation of these financial statements have been included and are of normal, recurring nature. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-KSB for the year ended December 31, 2006, as filed with the Securities and Exchange Commission. The results of operations for the three months ended March 31, 2007, may not be indicative of the results that may be expected for the year ending December 31, 2007.

*Loss per Common Share*

Loss per share amounts are computed by dividing net loss applicable to common shareholders by the weighted-average number of common shares outstanding during each period. Diluted loss per share amounts are computed assuming the issuance of common stock for potentially dilutive common stock equivalents. All outstanding stock options, warrants, and convertible common stock are currently antidilutive and have been excluded from the diluted loss per share calculations. The potentially dilutive common stock equivalents at March 31, 2007 and 2006 are as follows:

|   | <b>2007</b>        | <b>2006</b>       |
|---|--------------------|-------------------|
| Convertible notes                             | 128,671            | 128,671           |
| Convertible preferred stock                   | 141,106,493        | 38,620,690        |
| Stock warrants                                | 38,973,861         | 40,923,861        |
| Stock options and compensation-based warrants | 29,883,000         | 19,983,000        |
|   | <b>210,092,025</b> | <b>99,656,222</b> |

As of the date of these financial statements, the Company does not have enough authorized shares to meet the commitments it has entered into. Management is currently considering alternative solutions to this situation.

*Recently Issued Accounting Standards*

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. Certain aspects of this statement are effective for financial statements issued for fiscal years beginning after November 15, 2007. Accordingly, the Company will adopt SFAS 157 in 2008 to the extent that it is effective. The Company is currently evaluating the impact of SFAS 157 on the financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* - including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for

an eligible item is elected, unrealized gains and losses for that item shall be reported in current earnings at each subsequent reporting date. SFAS 159 also establishes presentation and disclosure requirements designed to draw comparison between the different measurement attributes the Company elects for similar types of assets and liabilities. This statement is effective for fiscal years beginning after November 15, 2007. Accordingly, the Company will adopt SFAS 159 in 2008, to the extent that it is effective. The Company is in the process of evaluating the application of the fair value option and its effect on its financial position and results of operations.

**MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES**  
**(A Development Stage Company)**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**Note 2 - Going Concern Considerations**

The Company's recurring losses from development-stage activities in the current and prior years raise substantial doubt about the Company's ability to continue as a going concern. As further described in the following footnotes, management of the Company is restructuring and reorganizing the Company to reposition the Company's future business and related operations. In February 2007, the Company engaged a consulting firm to assist it in resolving its financial issues, to obtain advice regarding any strategic alternatives that may be available to it, and to prevent the Company from losing all of its assets in bankruptcy. The Company has discontinued its bio-pharmaceutical operations and has sold certain assets of this business segment and has an agreement to sell the remainder of the assets of this business for cash and assumption of liabilities. The Company has also obtained a secured term credit facility to provide interim financing until the sale of assets closes, of which the Company has utilized \$350,000. The Company has also entered into a share exchange agreement with an entity for the purpose of developing a business involving the production of bio-diesel. In connection with this new business direction, the Company has entered into an employment agreement for a new Chief Operating Officer, who will also become the Chief Executive Officer in the near future and has entered into other consulting and service agreements in connection with the bio-diesel operation.

The ability of the Company to continue as a going concern is dependent upon the success of these new planned operations. 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.

**Note 3 - Discontinued Operations**

During the three months ended March 31, 2007, the Board of Directors determined that it could no longer fund the development of its two drug candidates and could not obtain additional funding for these drug candidates. The Board evaluated the value of both of its developmental stage drug candidates. In March, 2007, the Board determined that the best course of action was to discontinue further development of these two drug candidates and sell these technologies.

*Eucodis Agreement*

On March 8, 2007, the Company entered into a binding letter of intent with Eucodis Pharmaceuticals Forschungs - und Entwicklungs GmbH, an Austrian company (Eucodis), regarding their intent to proceed with the evaluation, negotiation, and execution of a sale and purchase agreement related to certain assets of the Company. On July 6, 2007, the Company entered into a sale and purchase agreement (the Asset Sale Agreement) with Eucodis, pursuant to which Eucodis agreed to acquire certain assets of the Company in consideration for a cash payment and the assumption by Eucodis of certain indebtedness of the Company. Pursuant to the Second Amendment to the Asset Sale Agreement, the sale is scheduled to be consummated on or before January 31, 2008 after the shareholders of the Company have approved the transaction.

**MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES**  
**(A Development Stage Company)**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

The assets to be acquired by Eucodis pursuant to the Asset Sale Agreement include all of the Company's right, title and interest in all patents, patent applications, United States and foreign regulatory files and data, pre-clinical study data and anecdotal clinical trial data concerning SaveCream. In addition, at the closing of the sale, the Company will also assign to Eucodis all of its right, title and interest in a co-development agreement with Eucodis, dated as of July 29, 2006, related to the co-development and licensing of SaveCream (including the intellectual property rights acquired in connection with that development) and their rights under certain other contracts relating to SaveCream.

The purchase price to be paid by Eucodis for acquiring these assets will be €4,007,534 (approximately \$5,906,000 under exchange rates in effect as of November 30, 2007), is comprised of (i) a cash payment of €1,538,462 (approximately \$2,267,000 under exchange rates in effect as of November 30, 2007) less \$200,000 received in March 2007 under the binding letter of intent, and (ii) Eucodis' assumption of an aggregate of €2,469,072 (approximately \$3,639,000 under exchange rates in effect as of November 30, 2007), constituting specific indebtedness currently owed and other commitments to certain creditors of the Company. In addition, at the closing of the sale, Eucodis will assume (i) all financial and other obligations of the Company under certain contracts to be assigned to Eucodis, and (ii) certain other costs incurred by the Company since February 28, 2007 in connection with preserving the acquired assets for the benefit of Eucodis until closing of the sale.

*MDI-P Agreement*

The Company also entertained various offers to purchase the Company's rights to the assets related to the MDI-P compound. On August 9, 2007, the Company sold the MDI-P related assets for \$310,000 in cash. The sale included the patents, name, and other intellectual property, research results and test data, production units and equipment, and other assets related to this technology. No liabilities were assumed by the purchaser in this transaction.

*Accounting for Discontinued Operations*

Pursuant to accounting rules for discontinued operations, the Company has classified all revenue and expense for 2007 and prior periods related to the operations of its bio-pharmaceutical business as discontinued operations. For all periods prior to March 2007, the Company has reclassified all revenue and operating expenses to discontinued operations, except for estimated general corporate overhead, because all of its operations related to the discontinued technologies. The assets being sold and the liabilities being assumed in the planned sales have been segregated in the accompanying balance sheets and are characterized as Assets Held for Sale and Current Liabilities Associated with Assets Held for Sale, respectively. Revenues of \$200,000 for the three months ended March 31, 2007 (none for the three months ended March 31, 2006) are included in the loss from discontinued operations. The Company has not recorded any gain or loss at March 31, 2007 associated with the planned sale of the bio-pharmaceutical business. The following table presents the main classes of assets and liabilities associated with the discontinued business.

**MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES**  
**(A Development Stage Company)**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

|   | <b>March 31,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|---|---------------------------|------------------------------|
| <b>Assets:</b>  |                           |                              |
| Property and equipment, net of accumulated depreciation | \$ 57,059                 | \$ 61,460                    |
| <b>Liabilities:</b>                                     |                           |                              |
| <b>Current liabilities:</b>                             |                           |                              |
| Accounts payable  | \$ 485,713                | \$ 472,993                   |
| Research and development obligation                     | 2,474,190                 | 2,441,445                    |
|   | \$ 2,959,903              | \$ 2,914,438                 |

**Note 4 - Consulting Agreements**

In February 2007, the Company engaged the Emmes Group, a consulting firm, to assist it in resolving its financial issues, to obtain advice regarding any strategic alternatives that may be available to it, and to prevent the Company from losing all of its assets in bankruptcy. During the past several months, the Company has explored a number of transactions that would (i) prevent the Company's shareholders from losing their entire investment in the Company and (ii) enable the Company to repay some of its currently outstanding debts and liabilities. The consulting agreement has a term of one year. As compensation for its services, the consultant is to receive \$15,000 per month plus a warrant to purchase 5,000,000 shares of the Company's common stock. The warrant has an exercise price of \$0.03 per share, contains a cash-less exercise provision, and expires ten years from date of issue. The Company valued this warrant at \$146,000 using the Black-Scholes pricing model. The weighted average fair value of the stock options was \$0.0292 per share. The weighted-average assumptions used for the calculation of fair value were risk-free rate of 4.84%, volatility of 134%, expected life of ten years, and dividend yield of zero. The fair value of the warrant was expensed as share-based compensation on the date of issue.

In February 2007, the Company entered into another consulting agreement with an individual to assist it in the preparation of financial statements and reporting to the SEC. The consulting agreement had a term of one year. As compensation for its services, the consultant was to receive \$10,000 per month plus a warrant to purchase 5,000,000 shares of the Company's common stock. The warrant has an exercise price of \$0.03 per share, contains a cash-less exercise provision, and expires ten years from date of issue. The Company valued this warrant at \$146,000 using the Black-Scholes pricing model. The weighted average fair value of the stock options was \$0.0292 per share. The weighted-average assumptions used for the calculation of fair value were risk-free rate of 4.84%, volatility of 134%, expected life of ten years, and dividend yield of zero. The fair value of the warrant was expensed as share-based compensation on the date of issue. This consulting agreement was terminated in May 2007. Since the consulting agreement was terminated prior to its expiration date, the Company's obligations under the consulting agreement, if any, for the period after the termination date are unclear. No demand for any additional compensation has been made against the Company under the consulting agreement.

**Note 5 - Stock Options and Warrants****Compensation-Based Stock Warrants and Options**

The Company has two incentive stock option plans wherein 24,000,000 shares of the Company's common stock are reserved for issuance thereunder.

As described in Note 4 to the condensed consolidated financial statements, the Company issued compensation-based warrants to purchase 10,000,000 shares of common stock during the three months ended March 31, 2007. The warrants have an exercise price of \$0.03 per share, contain a cash-less exercise provision, and expire ten years from date of issue. During the three months ended March 31, 2006, the Company granted a stock option to a former officer and director. The option is for 500,000 shares exercisable at \$0.25 per share through December 31, 2010. The option was fully vested on January 1, 2006. No income tax benefit has been recognized for share-based compensation arrangements and no compensation cost has been capitalized in the balance sheet.

**MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES**  
**(A Development Stage Company)**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

A summary of the status of the compensation-based warrants and options outstanding at March 31, 2007, and changes during the three months then ended is presented in the following table:

|                                | <b>Compensation-<br/>Based Stock<br/>Warrants and<br/>Options</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Life</b> | <b>Aggregate<br/>Intrinsic Value</b> |
|--------------------------------|---|--|--|--------------------------------------|
| Outstanding at January 1, 2007 | 19,883,000  | \$ 0.05  |  |                                      |
| Granted                        | 10,000,000  | 0.03   |  |                                      |
| Expired                        | -   | -  |  |                                      |
| Outstanding at March 31, 2007  | 29,883,000  | \$ 0.04  | 7.4 years  | \$ 100,000                           |
| Exercisable at March 31, 2007  | 29,883,000  | \$ 0.04  | 7.4 years  | \$ 100,000                           |

At March 31, 2007, 80,000 of the options outstanding have no stated contractual life. The fair value of each stock option granted or compensation-based warrant issued to an employee or consultant is estimated on the date of grant or issue using the Black-Scholes pricing model. The weighted average fair value of stock warrants issued to consultants during the three months ended March 31, 2007 was \$0.03 per share. The weighted-average assumptions used for warrants issued during the three months ended March 31, 2007 were risk-free rate of 4.84%, volatility of 134%, expected life of ten years, and dividend yield of zero. The weighted average fair value of stock options granted to the employee during the three months ended March 31, 2006 was \$0.13 per share. The weighted-average assumptions used for options granted during the three months ended March 31, 2006 were risk-free rate of 4.3%, volatility of 152%, expected life of five years, and dividend yield of zero.

The assumptions employed in the Black-Scholes option pricing model include the following. The expected life of stock options represents the period of time that the stock options granted are expected to be outstanding based on historical exercise trends. The expected volatility is based on the historical price volatility of our common stock. The risk-free interest rate represents the U.S. Treasury constant maturities rate for the expected life of the related stock warrants. The dividend yield represents our anticipated cash dividend over the expected life of the stock warrants.

The Company recognized \$292,000 of share-based compensation for warrants issued during the three months ended March 31, 2007. The Company recognized \$67,350 of share-based compensation for options granted during the three months ended March 31, 2006. As of March 31, 2007, there was no unrecognized compensation cost related to stock options or warrants that will be recognized in the future.



**MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES**  
**(A Development Stage Company)**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**Other Stock Warrants**

A summary of the status of the other warrants outstanding at March 31, 2007, and changes during the three months then ended is presented in the following table:

|                                | Shares Under<br>Warrant | W eighted<br>Average<br>Exercise Price |
|--------------------------------|-------------------------|--|
| Outstanding at January 1, 2007 | 38,973,861              | \$ 0.19                                |
| Issued                         | -                       | -                                      |
| Expired                        | -                       | -                                      |
| Outstanding at March 31, 2007  | 38,973,861              | \$ 0.19                                |

**Note 6 - Subsequent Events****Global Clean Energy Holdings, LLC**

Having agreed to discontinue its bio-pharmaceutical operations and dispose of the related assets, the Company considered entering into a number of other businesses that would enable it to be able to provide the shareholders with future value. The Company's Board of Directors decided to develop a business to produce and sell seed oils, including seed oils harvested from the planting and cultivation of the *Jatropha curcas* plant, for the purpose of providing feedstock oil intended for the generation of methyl ester, otherwise known as bio-diesel (the "Jatropha Business"). The Company's Board concluded that there was a significant opportunity to participate in the rapidly growing biofuels industry, which previously was mainly driven by high priced, edible oil-based feedstocks. In order to commence its new Jatropha Business, effective September 1, 2007, the Company (i) hired Richard Palmer, an energy consultant, and a member of Global Clean Energy Holdings LLC ("Global") to act as its new President, Chief Operating Officer and future Chief Executive Officer, (ii) engaged Mobius Risk Group, LLC, a Texas company engaged in providing energy risk advisory services, to provide it with consulting services related to the development of the Jatropha Business, and (iii) acquired certain trade secrets, know-how, business plans, term sheets, business relationships, and other information relating to the cultivation and production of seed oil from the Jatropha plant for the production of bio-diesel from Global.

*Share Exchange Agreement*

The Company entered into a share exchange agreement (the Global Agreement) pursuant to which the Company acquired all of the outstanding ownership interests in Global Clean Energy Holdings, LLC, a Delaware limited liability company (Global) on September 7, 2007 from Mobius Risk Group, LLC (Mobius) and from Richard Palmer (Mr. Palmer). Global is an entity that has certain trade secrets, know-how, business plans, term sheets, business relationships, and other information relating to the start-up of a business related to the cultivation and production of seed oil from the seed of the Jatropha plant, for the purpose of providing feedstock oil intended for the production of bio-diesel. Under the Global Agreement, the Company issued 63,945,257 shares of its common stock for all of the issued and outstanding membership interests of Global. Of the 63,945,257 shares issued under the Global Agreement, 36,540,146 shares were issued and delivered at the closing of the Global Agreement without any restrictions. The remaining 27,405,111 shares of common stock were, however, held in escrow by the Company, subject to forfeiture in

the event that certain specified performance and market-related milestones are not achieved. Upon the satisfaction from time to time of the operational and market capitalization condition milestones, the restricted shares will be released by the Company from escrow and delivered to the buyers in accordance with the terms and conditions of the Global Agreement. In the event that all of the milestone conditions are not achieved, the restricted shares that have not been released from escrow will be cancelled by the Company and thereafter cease to be outstanding.

**MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES**  
**(A Development Stage Company)**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

Of the restricted shares issued under the Global Agreement, 13,702,556 shares will be released from escrow if and when certain land lease agreements suitable for the planting and cultivation of *Jatropha curcas* are executed and certain operation management agreements with a third-party land and operations management company with respect to the management, planting and cultivation of *Jatropha curcas* are executed. These restricted shares will be held in escrow subject to the satisfaction of these milestones, at which time such shares will be released from escrow and delivered to the sellers.

The remaining 13,702,555 restricted shares issued under the Global Agreement will be released from escrow upon satisfaction of certain market capitalization and average daily trading volume levels. These restricted shares will be held in escrow subject to the satisfaction of these milestones, at which time such shares will be released from escrow and delivered to the sellers. As of November 30, 2007, a total of 4,567,518 shares had been released from escrow and delivered to the sellers.

The Company is currently evaluating the accounting effect of the Share Exchange Agreement.

*Mobius Consulting Agreement*

Concurrent with the execution of the Global Agreement, the Company entered into a consulting agreement with Mobius pursuant to which Mobius has agreed to provide consulting services to the Company in connection with the Company's new *Jatropha* bio-diesel feedstock business. The Company engaged Mobius as a consultant to obtain Mobius' experience and expertise in the feedstock/bio-diesel market to assist the Company and Mr. Palmer in developing this new line of operations for the Company. Mobius has agreed to provide the following services to the Company: (i) manage and supervise a contemplated research and development program contracted by the Company and conducted by the University of Texas Pan American regarding the location, characterization, and optimal economic propagation of the *Jatropha* plant; and (ii) assist with the management and supervision of the planning, construction, and start-up of plant nurseries and seed production plantations in Mexico, the Caribbean or Central America.

The term of the agreement is twelve (12) months, or until the scope of work under the agreement has been completed. Mobius will supervise the hiring of certain staff to serve in management and operations roles of the Company, or hire such persons to provide similar services as independent contractors. Mobius' compensation for the services provided under the agreement is a monthly retainer of \$45,000. The Company will also reimburse Mobius for reasonable business expenses incurred in connection with the services provided. The agreement contains customary confidentiality provisions with respect to any confidential information disclosed to Mobius or which Mobius receives while providing services under the agreement.

*Palmer Employment Agreement*

Effective September 1, 2007, the Company entered into an employment agreement with Richard Palmer pursuant to which the Company hired Mr. Palmer to serve as its President and Chief Operating Officer. Mr. Palmer was also appointed to serve as director on the Company's Board of Directors to serve until the next election of directors by the Company's shareholders. Upon the resignation of the current Chief Executive Officer, Mr. Palmer also will become the Company's Chief Executive Officer. The Company hired Mr. Palmer to take advantage of his experience and expertise in the feedstock/bio-diesel space, and in particular, in the *Jatropha* bio-diesel and feedstock business. The term of employment commenced September 1, 2007 and ends on September 30, 2010, unless terminated in accordance with the provisions of the agreement.



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Mr. Palmer's compensation package includes a base salary of \$250,000, subject to annual increases based on changes in the Consumer Price Index, and a bonus payment based on Mr. Palmer's satisfaction of certain performance criteria established by the compensation committee of the Company's Board of Directors. The bonus amount in any fiscal year will not exceed 100% of Mr. Palmer's base salary. Mr. Palmer is eligible to participate in the Company's employee stock option plan and other welfare plans. The Company granted Mr. Palmer an incentive option to purchase up to 12,000,000 shares of its common stock at an exercise price of \$0.03 (the trading price on the date the agreement was signed). The options vest upon the Company's achievement of certain market capitalization goals. When the Company's market capitalization reaches \$75 million, the incentive option will vest with respect to 6,000,000 shares. When the Company's market capitalization reaches \$120 million, the incentive option will vest with respect to the remaining 6,000,000 shares. The option expires five years after grant.

If Mr. Palmer's employment is terminated by the Company without "cause" or by Mr. Palmer for "good reason", he will be entitled to severance payments including 100% of his then-current annual base salary, plus 50% of the target bonus for the fiscal year in which his employment is terminated, and the incentive option to purchase 12,000,000 shares of common stock shall vest following termination of Mr. Palmer's employment. The Company is currently evaluating the proper accounting treatment for this employment agreement and option issuance.

*LODEMO Agreement*

On October 15, 2007, the Company entered into a service agreement with Corporativo LODEMO S.A DE CV, a Mexican corporation (the LODEMO Group).

The Company has decided to initiate its Jatropha Business in Mexico, and has already identified parcels of land in Mexico to plant and cultivate Jatropha. In order to obtain all of the logistical and other services needed to operate a large-scale farming and transportation business in Mexico, the Company entered into the service agreement with the LODEMO Group, a privately held Mexican company with substantial land holdings, significant experience in diesel distribution and sales, liquids transportation, logistics, land development and agriculture.

Under the supervision of the Company's management and Mobius, the LODEMO Group will be responsible for the establishment, development, and day-to-day operations of the Jatropha Business in Mexico, including the extraction of the oil from the Jatropha seeds, the delivery of the Jatropha oil to buyers, the purchase or lease of land in Mexico, the establishment and operation of one or more Jatropha nurseries, the clearing, planting and cultivation of the Jatropha fields, the harvesting of the Jatropha seeds, the operation of the Company's oil extraction facilities, and the logistics associated with the foregoing. Although the LODEMO Group will be responsible for identifying and acquiring the farmland, ownership of the farmland or any lease thereto will be held directly by the Company or by a Mexican subsidiary of the Company. The LODEMO Group will be responsible for hiring and managing all necessary employees. All direct and budgeted costs of the Jatropha Business in Mexico will be borne by the Company.

**MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES**  
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The LODEMO Group will provide the foregoing and other necessary services for a fee primarily based on the number of hectares of *Jatropha* under cultivation. The Company has agreed to pay the LODEMO Group a fixed fee per year of \$60 per hectare of land planted and maintained with minimum payments based on 10,000 hectares of developed land, to follow a planned planting schedule. The Agreement has a 20-year term but may be terminated earlier by the Company under certain circumstances. The LODEMO Group also will potentially receive incentive compensation for controlling costs below the annual budget established by the parties, production incentives for increase yield and a sales commission for biomass sales.

*Loan Agreement*

In order to fund ongoing operations pending closing of the sale to Eucodis, the Company entered into the Loan Agreement with, and issued a promissory note in favor of, with Mercator Momentum Fund III, L.P. (Mercator). Pursuant to the loan agreement, Mercator made available to the Company a secured term credit facility in principal amount of \$1,000,000. The promissory note initially was due and payable on December 14, 2007. As of December 13, 2007, the Company owed Mercator \$250,000 under the loan. Mercator has agreed to extend the maturity date of the \$250,000 to February 21, 2008. The foregoing loan is secured by a lien on all of our assets. The lender and its affiliates currently own all of the issued and outstanding shares of Series A Convertible Preferred Stock of the Company.

Under the loan agreement, interest is payable on the loan at a rate of 12% per annum, payable monthly. In connection with the closing of the loan, the Company agreed to the exchange of the warrants to purchase 27,452,973 shares at a price of \$0.1967 per share previously issued to the lender and certain of its affiliates to (i) lower the exercise price of such warrants to \$0.01 per share, (ii) permit the cash-less exercise of the warrants, and (iii) extend the expiration date thereof to September 30, 2013. The Company is currently evaluating the accounting effect of the loan agreement and exchange of warrants.

**Consultant Agreement**

On September 14, 2007, the Company entered into a one-year agreement with a consultant for investor relations services. Under the agreement, the Company agreed to pay total compensation of \$105,000 over the one-year term. As additional compensation, the Company issued 4,357,298 shares of restricted common stock to the consultant and granted piggyback registration rights for the stock to be registered in connection with the Company's next registration of securities. The Company is currently evaluating the accounting treatment for this consulting agreement.

**Conversion of Series A Preferred Stock**

On September 17, 2007, the preferred stockholders gave notice to the Company and converted 5,492 shares of Series A Preferred Stock into 10,983,521 shares of common stock. The conversion price was \$0.05 per share.

**Release and Settlement Agreement**

Mercator Momentum Fund, LP; Monarch Pointe Fund, Ltd.; and Mercator Momentum Fund III, LP, each a private investment entity (collectively, the MAG Funds) purchased shares of the Company's Series A Preferred Convertible Stock in 2004 and in 2005. In connection with the 2005 investment, the Company agreed to eliminate the conversion price floor of the Series A Stock. The Company failed to file an amendment to the Series A Stock Certificate of Designations of Preferences and Rights for the Series A Stock that would have eliminated the conversion price floor.

Accordingly, in connection with an intended conversion of some of their Series A Stock in September 2007, the MAG Funds were required to convert Series A Stock at a conversion price higher than the price that would have applied if the Amendment had been filed as agreed.

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**Notes to Unaudited Condensed Consolidated Financial Statements**

On October 22, 2007, the Company executed and entered into a Release and Settlement Agreement (the Release Agreement), with the MAG Funds to settle all losses and damages that MAG may have suffered, and may hereafter suffer, as result of the Company's failure to file the amendment to the Series A Stock Certificate of Designations of Preferences and Rights for the Series A Stock. Pursuant to the Release Agreement, the Company issued to the MAG Funds a ten-year warrant to acquire up to 17,000,000 shares of the Company's common stock at an exercise price of \$0.01 per share expiring October 17, 2017. The warrant contains a cash-less exercise provision, and the initial warrant price is subject to adjustments in connection with (i) the Company's issuance of dividends in shares of Common Stock, or shares of Common Stock or other securities convertible into shares of Common Stock without consideration, (ii) any cash paid or payable to the holders of Common Stock other than as a regular cash dividend, and (ii) future stock splits, reverse stock splits, mergers or reorganizations, and similar changes affecting common stockholders.

The warrant issued to the MAG Funds contain beneficial ownership limitations, which preclude the MAG Funds from exercising its warrant if, as a result of such conversion or exercise, the MAG Funds would own beneficially more than 9.99% of the Company's outstanding common stock then outstanding.

Pursuant to the Release Agreement, the MAG Funds released the Company from any and all claims, past, present or future, relating to the losses or the Company's failure to file the amendment. In addition, MAG has agreed not to sue the Company in connection with the losses or the Company's failure to file the Amendment.

The Company is currently evaluating the accounting significance of this release and settlement agreement.

**Issuance of Series B Preferred Stock**

In order to obtain additional working capital, on November 6, 2007, the Company entered into a Securities Purchase Agreement with two accredited investors, pursuant to which the Company sold a total of 13,000 shares of our newly authorized Series B Convertible Preferred Stock (Series B Shares) for an aggregate purchase price of \$1,300,000. Each share of the Series B Shares has a stated value of \$100.

The Series B Shares may, at the option of each holder, be converted at any time or from time to time into shares of our common stock at the conversion price then in effect. The number of shares into which one Series B Share shall be convertible is determined by dividing \$100 per share by the conversion price then in effect. The initial conversion price per share for the Series B Shares is \$0.11, which is subject to appropriate adjustment for certain events, including stock splits, stock dividends, combinations, or other recapitalizations affecting the Series B Shares.

Each holder of Series B Shares is entitled to the number of votes equal to the number of shares of our common stock into which the Series B Shares could be converted on the record date for such vote, and shall have voting rights and powers equal to the voting rights and powers of the holders of the Company's common stock. In the event of our dissolution or winding up, each share of the Series B Shares is entitled to be paid an amount equal to \$100 (plus any declared and unpaid dividends) out of the assets of the Company then available for distribution to shareholders; subject, however, to the senior rights of the holders of Series A Stock.



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No dividends are required to be paid to holders of the Series B Shares. However, the Company may not declare, pay or set aside any dividends on shares of any class or series of our capital stock (other than dividends on shares of our common stock payable in shares of common stock) unless the holders of the Series B Shares shall first receive, or simultaneously receive, an equal dividend.

**Release and Settlement Agreement with Chief Executive Officer**

On August 31, 2007, the Company entered into a Settlement and Release Agreement with Judy Robinett, the Company's current Chief Executive Officer, pursuant to which Ms. Robinett agreed to continue to act as the Company's transitional Chief Executive Officer. Under the agreement, Ms. Robinett agreed to, among other things, assist the Company in the sale of its legacy assets, complete the preparation and filing of the delinquent reports to the Securities and Exchange Commission (the SEC) that related to the periods prior to the appointment of Mr. Palmer, and provide certain shareholder and creditor related services. Upon the completion of the foregoing matters, in particular the filing of the delinquent reports to the SEC, Ms. Robinett will resign, and Mr. Palmer will thereafter assume the office of Chief Executive Officer. Under the agreement, Ms. Robinett agreed to (i) forgive her potential right to receive \$1,851,805 in accrued and unpaid compensation, un-accrued and pro-rata bonuses, and severance pay and (ii) the cancellation of stock options to purchase 14,000,000 shares of common stock at an exercise price of \$0.02 per share. In consideration for her services, the forgiveness of the foregoing cash payments, the cancellation of the foregoing stock options, and settlement of other issues, the Company agreed to (a) pay Ms. Robinett \$500,000 upon the receipt of the Eucodis cash payment under the agreement to sell the SaveCream Assets, (b) pay Ms. Robinett a commission of fifteen percent of the gross proceeds received by the Company from the sale of the MDI-P asset, (c) pay Ms. Robinett \$20,833 in monthly salary for serving as transitional Chief Executive Officer of the Company during the period from April 1, 2007, until the completion of the transitional period and the issuance of the Company's delinquent SEC reports, and (d) permit Ms. Robinett to retain some of her previously granted incentive stock options in such an amount allowing her to purchase up to two million shares of common stock, which options shall continue to have the same terms and conditions as currently in existence, including an option price of \$0.01 per share and expiration date of December 31, 2112.

## ITEM 2. MANagements' DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS.

*This Report, including any documents which may be incorporated by reference into this Report, contains "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements regarding our business still being in the developmental stage, our lack of operating revenues or profits, our dependence on raising significant additional capital, our auditors' expression of substantial doubt as to our ability to continue as a going concern, the government regulation to which we are subject, our exposure to certain pricing risks, the competition we face, our stock being thinly traded and subject to manipulation, the volatility of our stock price, the risk that our shareholders could suffer substantial dilution, and the fact that we have not paid dividends to date. All statements other than statements of historical fact are "Forward-Looking Statements" for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing. All Forward-Looking Statements included in this document are made as of the date hereof and are based on information available to us as of such date. We assume no obligation to update any Forward-Looking Statement. In some cases, Forward-Looking Statements can be identified by the use of terminology such as "may," "will," "expects," "plans," "anticipates," "intends," "believes," "estimates," "potential," or "continue," or the negative thereof or other terminology. Although we believe that the expectations reflected in the Forward-Looking Statements contained herein are reasonable, there can be no assurance that such expectations or any of the Forward-Looking Statements will prove to be correct, and actual results could differ materially from those projected or assumed in the Forward-Looking Statements. Future financial condition and results of operations, as well as any Forward-Looking Statements are subject to inherent risks and uncertainties, including any other factors referred to in our company's press releases and reports filed with the Securities and Exchange Commission. All subsequent Forward-Looking Statements attributable to our company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. Additional factors that may have a direct bearing on our company's operating results are described under "Risk Factors" and elsewhere in this report.*

### **Introductory Comment**

Throughout this Quarterly Report on Form 10-QSB, the terms "we," "us," "our," and "our company" refer to Medical Discoveries, Inc., a Utah corporation, and, unless the context indicates otherwise, also includes our wholly owned subsidiary, MDI Oncology, Inc., a Delaware corporation.

### **Overview.**

Prior to 2007, Medical Discoveries, Inc. was a developmental-stage bio-pharmaceutical company engaged in the research, validation, development and ultimate commercialization of two drugs. As more fully described in this report, during 2007 the Board of Directors of our company determined that it could no longer fund the development of its two drug candidates and could not obtain additional funding for these drug candidates. Accordingly, the Board decided to sell the two drug candidates and to develop a new business in the rapidly expanding business of renewable alternative energy sources. As a result, our future business plan, and our current principal business activities include the planting, cultivation, harvesting and processing of inedible feedstock to generate feedstock seed oils and biomass for use in the biofuels industry, including the production of bio-diesel. Bio-diesel is a diesel-equivalent, processed fuel derived from biological sources (such as plant oils), which can be used in diesel engines.

## **Organizational History.**

Medical Discoveries, Inc. was incorporated under the laws of the State of Utah on November 20, 1991. Effective as of August 6, 1992, the company merged with and into WPI Pharmaceutical, Inc., a Utah corporation (WPI), pursuant to which WPI was the surviving corporation. Pursuant to the MDI-WPI merger, the name of the surviving corporation was changed to Medical Discoveries, Inc. WPI was incorporated under the laws of the State of Utah on February 22, 1984 under the name Westport Pharmaceutical, Inc.

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

In October 2007, we relocated our principal executive offices from 1338 S. Foothill Drive, #266, Salt Lake City, Utah 84108 to 6033 W. Century Blvd, Suite 1090, Los Angeles, California 90045. We intend to change our company's name to "Global Clean Energy Holdings, Inc." to reflect our new focus on the bio-diesel alternative energy market. Our telephone number is (310) 670-7911. During our transition to our new business, we maintain two websites at [www.gceholdings.com](http://www.gceholdings.com) and [www.medicaldiscoveries.com](http://www.medicaldiscoveries.com). Our annual reports on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended, and other related information are available, free of charge, on our website as soon as we electronically file those documents with, or otherwise furnish them to, the Securities and Exchange Commission. Our internet websites and the information contained therein, or connected thereto, are not and are not intended to be incorporated into this Quarterly Report on Form 10-QSB or any other Securities and Exchange Commission filing.

## **Transition to new Business**

Until 2007, we were a developmental-stage bio-pharmaceutical company engaged in the research, validation, development and ultimate commercialization of two drugs: MDI-P and SaveCream. MDI-P is a drug candidate that we were developing as an anti-infective treatment for bacterial infections, viral infections and fungal infections. SaveCream is a drug candidate that we were developing to reduce breast cancer tumors. Both of these drugs were under development and had not been approved by the U.S. Food and Drug Administration ("FDA"). The total cost to develop these two drugs and to receive the approval from the FDA would have cost many millions of dollars and taken many more years. In the past, we attempted to fund our development costs through the sale of equity securities, including the sale of our Series A Convertible Preferred Stock. To date, we have not generated significant revenues from operations or realized a profit.

Early in 2007, our Board of Directors determined that we could no longer fund the development of our two drug candidates and that we could not obtain additional funding for these drug candidates. The Board noted that the commencement of human clinical trials of the MDI-P drug candidate was on Full Clinical Hold by the FDA under 21 CFR 312.42(b) and may not be initiated until deficiencies in our IND application are resolved to the FDA's satisfaction. Our Board also evaluated the value of the SaveCream drug candidate that is currently being co-developed with Eucodis Pharmaceuticals Forschungs - und Entwicklungs GmbH, an Austrian company ("Eucodis"), and the return we could expect for our shareholders, and determined that the highest value for this drug candidate could be realized through a sale of that drug candidate to Eucodis. Accordingly, our Board sought to maximize the return from these assets through their sale.

On July 6, 2007, we entered into an agreement with Eucodis to sell SaveCream for an aggregate of €4,007,534 (approximately U.S. \$5,906,000 based on the currency conversion rate in effect as of November 30, 2007), which consideration is payable in cash and by the assumption of certain of our outstanding liabilities. The consummation of the sale of the SaveCream to Eucodis is contingent upon the approval of our shareholders, and we anticipate holding a special meeting of the shareholders in 2008 to approve the Eucodis after our pending proxy statement has been cleared

for use by the SEC. On August 9, 2007, we sold the MDI-P compound for \$310,000 in cash.

Having agreed to dispose of the foregoing assets, we considered entering into a number of other businesses that would enable us to provide our shareholders with future value. Our Board has decided to develop a business to produce and sell seed oils, including seed oils harvested from the planting and cultivation of *Jatropha curcas* plant, for the purpose of providing feedstock oil intended for the generation of methyl ester, otherwise known as bio-diesel (the "Jatropha Business"). Our Board concluded that there was a significant opportunity to participate in the rapidly growing biofuels industry, which previously was mainly driven by high priced, edible oil-based feedstocks. In order to commence our new Jatropha Business, effective September 1, 2007, we (i) hired Richard Palmer, an energy consultant, and a member of Global Clean Energy Holdings LLC ("Global") to act as the our new President, Chief Operating Officer and future Chief Executive Officer, (ii) engaged Mobius Risk Group, LLC, a Texas company engaged in providing energy risk advisory services, to provide us with consulting services related to the development of the Jatropha Business, and (iii) acquired certain trade secrets, know-how, business plans, term sheets, business relationships, and other information relating to the cultivation and production of seed oil from the Jatropha plant for the production of bio-diesel from Global.

For additional details regarding the transactions we have entered into in connection with our new Jatropha Business, please see Note 6 - Subsequent Events to the condensed consolidated financial statements included in this Form 10-QSB for the quarter ended March 31, 2007.

### **Critical Accounting Policies**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States require management to make estimates and assumptions that affect the reported assets, liabilities, sales and expenses in the accompanying financial statements. Critical accounting policies are those that require the most subjective and complex judgments, often employing the use of estimates about the effect of matters that are inherently uncertain. We are a development stage company as defined by the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 7, "Accounting and Reporting by Development Stage Enterprises." Accordingly, all losses accumulated since inception have been considered as part of our development stage activities. Certain other critical accounting policies, including the assumptions and judgments underlying them, are disclosed in the Note A to the Consolidated Financial Statements included in our annual report on Form 10KSB filed for the fiscal year ended December 31, 2006. However, we do not believe that there are any alternative methods of accounting for our operations that would have a material affect on our financial statements.

### **Results of Operations**

As discussed previously, during the three months ended March 31, 2007, the Board of Directors determined to discontinue our prior bio-pharmaceutical operations. Pursuant to accounting rules for discontinued operations, we have classified all revenue and expense for 2007 and prior periods related to the operations of our bio-pharmaceutical business as discontinued operations. Since all of our prior operations related to the bio-pharmaceutical business, all of our revenue and expense, with the exception of estimated general corporate overhead, has been reclassified into "Loss from Discontinued Operations" in the accompanying Condensed Consolidated Statements of Operations for all periods presented.

*Revenues and Gross Profit.* We are a development stage company and have not had significant revenues from our operations or reached the level of our planned operations. We have discontinued our prior bio-pharmaceutical operations during the three months ended March 31, 2007. Subsequent to March 31, 2007, we commenced operations in our new Jatropha business, but we are still in the pre-development agricultural stage of our operations and, therefore, do not anticipate generating significant revenues from the sale of bio-fuel products until 2009. We are, however, attempting to generate operating cash in 2008 from the forward sale of carbon credits and possibly from future oil delivery contracts. During the three months ended March 31, 2007, we recognized revenue of \$200,000 related to our discontinued bio-pharmaceutical business, which revenue has been netted against expenses of

discontinued operations and is included in Loss from Discontinued Operations in the accompanying Condensed Consolidated Statement of Operations.

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*Operating Expenses.* Our general and administrative expenses related to continuing operations for the quarter ended March 31, 2007 were \$251,327 compared to \$89,835 for the quarter ended March 31, 2006. In 2007, general and administrative expense consists of general corporate overhead of \$76,127 and share-based compensation of \$175,200. In 2006, general and administrative expense principally consisted of estimated general corporate overhead. We have included expenses such as director fees, accounting costs, certain legal costs, certain consulting expenses, and an allocation of our one employee's compensation as general corporate overhead. Other general and administrative expenses more directly related to the operation and disposal of our bio-pharmaceutical business have been included in Loss from Discontinued Operations.

We did not incur any research and development expenses for the quarter ended March 31, 2007 due to our Board of Directors' decision to discontinue funding development of the SaveCream and MDI-P drug candidate assets. We incurred \$92,583 in research and development expenses for the same period of 2006, which is included in Loss from Discontinued Operations.

*Other Income/ Expense and Net Loss.* Our interest income decreased to \$148 for the quarter ended March 31, 2007 from interest income of \$1,211 in the same period of 2006 because of our decreased cash balances that we maintained in 2007.

During the quarter ended March 31, 2007, we recorded \$194,019 as unrealized gain on financial instrument to record the accounting of warrants resulting from the issuance of the Series A Convertible Preferred Stock entered into in October 2004 and March 2005. During the same period of 2006, we had an unrealized loss as a result of the accounting for our warrants of \$1,119,777. This non-cash gain/loss recognition is the result of the periodic revaluation of certain warrants classified as a liability in the financial statements.

Our Loss from Discontinued Operations was \$355,693 for the three months ended March 31, 2006 compared to \$109,163 for the same period in 2007. This factor, when considered with the non-cash loss of \$1,119,777 resulting from the revaluation of certain warrants in the prior year, resulted in our net loss applicable to common shareholders for the first quarter of 2006 significantly exceeding our net loss of \$174,063 for the quarter ended March 31, 2007.

### **Liquidity And Capital Resources**

As of March 31, 2007, we had \$137,385 in cash and had a working capital deficit of \$5,404,268. Since our inception, we have financed our operations primarily through private sales of equity and debt financing. Accordingly, early in 2007 we re-evaluated our future operations thereafter elected to terminate our bio-pharmaceutical operations.

In July 2007, we executed the Asset Sale Agreement with Eucodis pursuant to which we agreed to sell our SaveCream asset for an aggregate of €4,007,534 (approximately \$5,906,000 based on the currency conversion rate in effect as of November 30, 2007), a portion of which comprised (i) a cash payment of €1,538,462 (approximately \$2,267,000 based on the currency conversion rate in effect as of November 30, 2007), which is due and payable to us at the closing, less \$200,000 already received from Eucodis in March 2007 upon the signing of the Letter of Intent, and (b) Eucodis' assumption of an aggregate of €2,469,072 (approximately \$3,639,000 based on the currency conversion rate in effect as of November 30, 2007), constituting specific indebtedness currently owed to certain of our creditors. The sale is scheduled to close on or before January 31, 2008.

In August 2007, we sold our second drug candidate, the MDI-P compound, for \$310,000 in cash.

In order to fund ongoing operations pending closing of the sale to Eucodis, we entered into the Loan Agreement with, and issued a promissory note in favor of, Mercator Momentum Fund III, L.P. ("Mercator"). Pursuant to the loan agreement, Mercator made available to us a secured term credit facility in principal amount of \$1,000,000. Initially, all loans under the credit facility became due and payable on December 14, 2007. As of December 13, 2007, \$250,000 was outstanding under the credit facility. Mercator has agreed to extend the maturity date of this \$250,000 loan to February 21, 2008. The foregoing loan is secured by a lien on all of our assets.

In November 2007, we issued 13,000 shares of our newly created Series B Convertible Preferred Stock to two accredited investors for an aggregate of \$1,300,000.

We are currently funding our operations from the Mercator loan and from the proceeds of the sale of the Series B Convertible Preferred Stock. Assuming that the sale of SaveCream to Eucodis is completed in early 2008, we intend to use the net proceeds from that sale to fund our operating expenses, and pay \$500,000 due to our transitional Chief Executive Officer under a certain release and settlement agreement. However, our business plan calls for significant infusion of additional capital to establish our Jatropha plantations in Mexico and other locations. We currently do not have the funds necessary to acquire and cultivate those plantations, nor will the projected proceeds from the Eucodis sale be sufficient for those purposes. Accordingly, in addition to the proceeds we expect to receive upon the sale of SaveCream to Eucodis, we will have to obtain significant additional capital through the sale of additional equity and/or debt securities, the forward sale of Jatropha oil and carbon offset credits, and from other financing activities, such as strategic partnerships. While we have commenced negotiations with third parties to obtain additional funding from strategic partnerships and for the sale of carbon credits, no assurance can be given that we will have sufficient capital available to continue to operate our business in 2008 or that we will be able to effect our new business plan in the Jatropha Business.

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

## **RISK FACTORS**

### **Risks Relating to Our Business**

*We have no direct operating history in the feedstock and bio-diesel industries, which makes it difficult to evaluate our financial position and our business plan.*

To date, we have been a development stage bio-pharmaceutical company. Since our inception through December 31, 2006, we generated only \$957,000 of revenues and accumulated net losses of over \$22 million. During 2007, we terminated our operations as a bio-pharmaceutical company and have commenced developing a new business in the biofuels industry. However, since we have only recently commenced our operations as a biofuels company, we have no operating history in that line of business on which a decision to invest in our company can be based. The future of our company currently is dependent upon our ability to implement our new business plan in the Jatropha Business. While we believe that our business plan, if implemented as drafted, will make our company successful, we have no operating history against which we can test our plans and assumptions, and therefore cannot evaluate the likelihood of success.

*The Jatropha Business that we are commencing is a new and highly risky business that has not been conducted on a similar scale in North America.*

Our business plan calls for a large scale planting and harvesting of Jatropha plants, primarily outside of the United States, and for the subsequent production and sale of Jatropha oil (and other Jatropha byproducts) for use as a biofuel primarily in the United States. We are commencing a new business and will be subject to all of the risks normally associated with new businesses, including risks related to the large scale production of plants that have not heretofore



been grown in large scale plantations, logistical issues related to the oil and biomass produced at such new plantations, market acceptance, uncertain pricing of our products, developing governmental regulations, and the lack of an established market for our products.

*Since we currently have a limited amount of cash available, and are not generating any revenues from either our legacy bio-pharmaceutical business or our new Jatropha Business, we are dependent upon the sales proceeds to be derived from the sale of SaveCream, the sale of Carbon Credit purchase contracts, future delivery Jatropha oil purchase contracts, and on our ability to raise additional funds to continue our operations and existence.*

We currently only have a limited amount of cash available, which cash is not sufficient to fund our anticipated future operating needs beyond the first quarter of 2008. In addition, neither our legacy bio-pharmaceutical business, nor our new Jatropha Business currently generate any revenues from which we can pay our administrative and operating expenses. We currently anticipate that we will receive approximately \$2,067,000 in cash based on the currency conversion rate in effect as of November 30, 2007 upon the sale of our SaveCream rights to Eucodis (in addition to being relieved of our obligation to pay approximately \$3,639,000 of currently outstanding liabilities). The closing of the SaveCream sale is currently scheduled to occur at the end of January 2008, and we currently have sufficient funds to operate until that date. However, in the event that the closing of the SaveCream assets is delayed or does not occur, we will face an immediate cash shortage, and may not be able to fund our anticipated operating expenses after February 2008. No assurance can be given that the SaveCream sale will occur, or that it will occur during the time period we anticipate.

We will continue to incur administrative and general operating expenses without revenues until we begin selling Jatropha oil, or until we complete the sales of carbon credit purchase contracts. Based on our current monthly operating expenses and our projected future operating expenses, even if the SaveCream sale closes as planned, we will need to obtain significant additional funding during 2008 to continue our operations and meet our business plan objectives. Such additional funds could be obtained from the sale of equity, from forward purchase payments for our products, or debt financing. There can be no assurance that we will be able to obtain the capital we require, or obtain such capital on terms that are commercially favorable for us. In the event that we do not obtain additional funding in the near future, we may not be able to maintain our current operations and will not be able to implement our business plan.

In addition, our Jatropha Business will require that we acquire and cultivate a large amount of land and otherwise incur significant initial start-up expenses related to establishing the Jatropha plantations required for our proposed business. We currently do not have the capital that is necessary to acquire the land or to otherwise fund the large up-front expenses, nor has any entity agreed to provide us with such funds. Accordingly, the success of our new Jatropha Business is contingent on, among other things, our ability to raise the necessary capital to fund our planned Jatropha Business expenditures. Historically, we have raised capital through the issuance of debt and equity securities. However, given the risks associated with a new, untested biofuels business, the risks associated with our common stock (as discussed below), and our status as a small, unknown public company, we cannot guarantee that we will be able to raise capital, or if we are able to raise capital, that such capital will be in the amounts needed. Our failure to raise capital, when needed and in sufficient amounts, will severely impact our ability to develop our Jatropha Business.

*Our business could be significantly impacted by changes in government regulations over energy policy.*

Our planned operations and the properties we intend to cultivate are subject to a wide variety of federal, provincial and municipal laws and regulations, including those governing the use of land, type of development, use of water, use of chemicals for fertilizer, pesticides, export or import of various materials including plants, oil, use of biomass, handling of materials, labor laws, storage handling of materials, shipping, and the health and safety of employees. As such, the nature of our operations exposes us to the risk of claims with respect to such matters and there can be no assurance that material costs or liabilities will not be incurred in connection with such claims. In addition, these governmental regulations, both in the U.S. and in the foreign countries in which we may conduct our business, may restrict and hinder our operations and may significantly raise our cost of operations. Any breach by our company of such legislation may also result in the suspension or revocation of necessary licenses, permits or authorizations, civil

liability and the imposition of fines and penalties, which would adversely affect our ability to operate and our financial condition.

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Further, there is no assurance that the laws, regulations, policies or current administrative practices of any government body, organization or regulatory agency in the United States or any other jurisdiction, will not be changed, applied or interpreted in a manner which will fundamentally alter the ability of our company to carry on our business. The actions, policies or regulations, or changes thereto, of any government body or regulatory agency, or other special interest groups, may have a detrimental effect on our company. Any or all of these situations may have a negative impact on our operations.

*Our future growth is dependent upon strategic relationships within the feedstock and bio-diesel industries. If we are unable to develop and maintain such relationships, our future business prospects could be significantly limited.*

Our future growth will generally be dependent on relationships with third parties, including alliances with feedstock oil and bio-diesel processors and distributors. In addition, we will likely rely on third parties to oversee the operations and cultivation of the Jatropha plants in our non-U.S. properties. Accordingly, our success will be significantly dependent upon our ability to establish successful strategic alliances with third parties and on the performance of these third parties. These third parties may not regard their relationship with us as important to their own business and operations, and there is no assurance that they will commit the time and resources to our joint projects as is necessary, or that they will not in the future reassess their commitment to our business. Furthermore, these third parties may not perform their obligations as agreed. In the event that a strategic relationship is discontinued for any reason, our business, results of operations and financial condition may be materially adversely affected.

*We will depend on key service providers for assistance and expertise in beginning operations and any failure or loss of these relationships could delay our operations, increase our expenses and hinder our success.*

Because of our limited financial and personnel resources, and because our Jatropha plantations are expected to be established primarily outside of the United States, we will have to establish and maintain relationships with several key service providers for land acquisition, the development and cultivation of Jatropha plantations, labor management, the transportation of Jatropha oil and biomass, and other services. We have already established such a relationship with the Lodemo Group in Mexico concerning the cultivation and management of our Jatropha nurseries and plantations in Mexico and the transportation of our products. Accordingly, our ability to develop our Jatropha Business in Mexico, and our success in Mexico, will to a large extent be dependent upon the efforts and services of the Lodemo Group. While the Lodemo Group has significant experience in diesel distribution and sales, liquids transportation, logistics, land development and agriculture, no assurance can be given that our joint operations with the Lodemo Group will be successful or that we will be able to achieve our goals in Mexico.

*A significant decline in the price of oil could have an adverse impact in our profitability.*

Our success is dependent in part to the current high price of crude oil and on the high price of seed oils that are currently used to manufacture bio-diesel. A significant decline in the price of either crude oil or the alternative seed oils will have a direct negative impact on our financial performance projections.

*There are risks associated with conducting our business operations in foreign countries, including political and social unrest.*

Our proposed agricultural operations will be primarily located in foreign countries, beginning in Mexico. Accordingly, we are subject to risks not typically associated with ownership of U.S. companies and therefore should be considered more speculative than investments in the U.S.

Mexico is a developing country that has experienced a range of political, social and economic difficulties over the last decade. Our operations could be affected in varying degrees by political instability, social unrest and changes in government regulation relating to foreign investment, the biofuels industry, and the import and export of goods and services. Operations may also be affected in varying degrees by possible terrorism, military conflict, crime, fluctuations in currency rates and high inflation.

In addition, Mexico has a nationalized oil company, and there can be no assurance that the government of Mexico will continue to allow our business and our assets to compete in any way with their interests. Our operations could be adversely affected by political, social and economic unrest in Mexico and the other foreign countries we plan for commence agricultural operations.

*The cost of developing and operating our agricultural projects significantly exceeds our current financial.*

Our preliminary budget contemplates the cultivation of 20,000-hectare of Jatropha in Mexico. According to our business plan, this will be the first of several other large plantations used in our feedstock/biofuel operations. In addition, we will have to construct a plant nursery and research facility as well as an seed oil extraction facility. We currently do not have the funds necessary to fund our planned operations. Unless we are able to obtain the necessary funds on economically viable terms, our Jatropha Business will not succeed, and we will not be able to meet our business goals. In addition, even if we obtain the initial funds necessary to establish our plantation and facilities, the costs to develop and implement our proposed plantation and support facilities, and our other operational costs could significantly increase beyond our expectations due to economic factors, design modifications, implementation or construction delays or cost overruns. In such an event, our profitability and ultimately the financial condition of our company will be adversely affected.

*We plan to grow rapidly and our inability to keep up with such growth may adversely affect our profitability.*

We plan to grow rapidly and significantly expand our operations. This growth will place a significant strain on our management team and other company resources. We will not be able to implement our business strategy in a rapidly evolving market without effective planning and management processes. We have a short operating history and have not implemented sophisticated managerial, operational and financial systems and controls. We are required to manage multiple relationships with various strategic partners, including suppliers, distributors, and other third parties. To manage the expected growth of our operations and personnel, we will have to significantly supplement our existing managerial, financial and operational staff, systems, procedures and controls. We may be unable to supplement and complete, in a timely manner, the improvements to our systems, procedures and controls necessary to support our future operations, our operations will not function effectively. In addition, our management may be unable to hire, train, retain, motivate and manage required personnel, or successfully identify, manage and exploit existing and potential market opportunities. As a result, our business and financial condition may be adversely affected.

*Our business will not be diversified because we will be primarily concentrated in one industry. As a consequence, we may not be able to adapt to changing market conditions or endure any decline in the bio-diesel industry.*

We expect our business to consist primarily of sales of feedstock oil harvested from the Jatropha plant, and bio-diesel production and sales. We do not have any other lines of business or other sources of revenue to rely upon if we are unable to produce and sell feedstock oil and bio-diesel, or if the markets for such products decline. Our lack of diversification means that we may not be able to adapt to changing market conditions or to withstand any significant decline in the bio-diesel industry.

*Reductions in the price of bio-diesel, and decreases in the price of petroleum-based fuels could affect the price of our feedstock, resulting in reductions in our actual revenues.*



Historically, bio-diesel prices have been highly correlated to the Ultra Low Sulfur (“ULS”) diesel prices. Increased volatility in the crude oil market has an effect on the stability and long-term predictability of ULS diesel, and hence the biofuels prices in the domestic and international markets. Crude oil prices are impacted by wars and other political factors, economic uncertainties, exchange rates and natural disasters. A reduction in petroleum-based fuel prices may have an adverse effect on bio-diesel prices and could apply downward pressure on feedstock, affecting revenues and profits in the feedstock industry, which could adversely affect our financial condition.

*There are several agreements and relationships that remain to be negotiated, executed and implemented which will have a critical impact on our operations, expenses and profitability.*

We have several agreements, documents and relationships that remain to be negotiated, executed and implemented before we can develop fully commence our new operations, including agreements relating to the construction of our proposed seed processing plant and other support facilities for our Jatropha plantation in Mexico. In some cases, the parties with whom we would need to establish a relationship have yet to be identified. Our expectations regarding the likely terms of these agreements and relationships could vary greatly from the terms of any agreement or relationship that may eventually be executed or established. If we are unable to enter into these agreements or relationships on satisfactory terms, or if revisions or amendments to existing terms become necessary, the construction of our proposed seed processing plant and the commencement of our related operations could be delayed, our expenses could be increased and our profitability could be adversely affected and the value of your investment could decline.

*Delays due to, among others, weather, labor or material shortages, permitting or zoning delays, or opposition from local groups, may hinder our ability to commence operations in a timely manner.*

Our development schedule assumes the commencement of planting in the first quarter of 2008, with oil production anticipated 18 months thereafter. We could incur delays in the implementation of that plan or the construction of support facilities due to permitting or zoning delays, opposition from local groups, adverse weather conditions, labor or material shortages, or other causes. In addition, changes in political administrations at the federal, state or local level that result in policy changes towards the large scale cultivation of Jatropha or towards biofuels in general could result in delays in our timetable for development and commencement of operations. Any such delays could adversely affect our ability to commence operations and generate revenue.

*We may be unable to locate suitable properties and obtain the development rights needed to build and expand our business.*

Our business plan focuses on identifying and developing agricultural properties (plantations, nurseries, etc.) for the production of biofuels feedstock. The availability of land for this activity is key to our projected revenue and profitability. Our ability to acquire appropriate land in the future is uncertain and we may be required to delay planting, which may create unanticipated costs and delays. In the event that we are not successful in identifying and obtaining rights on suitable land for our agricultural and processing facilities, our future prospects for profitability will likely be affected, and our financial condition and resulting operations may be adversely affected.

*Technological advances in feedstock oil production methods in the bio-diesel industry could adversely affect our ability to compete and the value of your investment.*

Technological advances could significantly decrease the cost of producing feedstock oil and biofuels. There is significant research and capital being invested in identifying more efficient processes, and lowering the cost of producing feedstock oil and biofuels. We expect that technological advances in feedstock oil/biofuel production methods will continue to occur. If improved technologies become available to our competitors, they may be able to produce feedstock oil, and ultimately biofuels, at a lower cost than us. If we are unable to adopt or incorporate technological advances into our operations, our ability to compete effectively in the feedstock/biofuels market may be

adversely affected, which in turn will affect our profitability.

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*The development of alternative fuels and energy sources may reduce the demand for biofuels, resulting in a reduction in our profitability.*

Alternative fuels, including a variety of energy alternatives to biofuels, are continually under development. Technological advances in fuel-engines and exhaust system design and performance could also reduce the use of biofuels, which would reduce the demand for bio-diesel. Further advances in power generation technologies, based on cleaner hydrocarbon based fuels, fuel cells and hydrogen are actively being researched and developed. If these technological advances and alternatives prove to be economically feasible, environmentally superior and accepted in the marketplace, the market for biofuels could be significantly diminished or replaced, which would adversely affect our financial condition.

*Our ability to hire and retain key personnel and experienced consultants will be an important factor in the success of our business and a failure to hire and retain key personnel may result in our inability to manage and implement our business plan.*

We are highly dependent upon our management, and on the consulting services provided to us by Mobius Risk Group, LLC, a company we have retained to provide us with consulting services related to the development of our Jatropa Business. The loss of the services of one or more of these individuals or of Mobius may impair management's ability to operate our company. We have not purchased key man insurance on any of our officers, which insurance would provide us with insurance proceeds in the event of their death. Without key man insurance, we may not have the financial resources to develop or maintain our business until we could replace such individuals or to replace any business lost by the death of such individuals. We may not be able to attract and retain the necessary qualified personnel. If we are unable to retain or to hire qualified personnel as required, we may not be able to adequately manage and implement our business.

*Our operating costs could be higher than we expect, and this could reduce our future profitability.*

In addition to general economic conditions, market fluctuations and international risks, significant increases in operating, development and implementation costs could adversely affect our company due to numerous factors, many of which are beyond our control. These increases could arise for several reasons, such as:

- Increased cost for land acquisition;
- Increased unit costs of labor for nursery, field preparation and planting;
- Increased costs for construction of facilities;
- Increased transportation costs for required nursery and field workers;
- Increased costs of supplies and sub-contacted labor for preparing of land for planting;
- Increase costs for irrigation, soil conditioning, soil maintenance; or
- Increased time for planting and plant care and custody.

Upon completion of our field developments, our operations will also subject us to ongoing compliance with applicable governmental regulations, including those governing land use, water use, pollution control, worker safety and health and welfare and other matters. We may have difficulty complying with these regulations and our compliance costs could increase significantly. Increases in operating costs would have a negative impact on our operating income, and could result in substantially decreased earnings or a loss from our operations, adversely affecting our financial

condition.

*Fluctuations in the Mexican peso to U.S. dollar exchange rate may adversely affect our reported operating results.*

The Mexican peso is the primary operating currency for our initial business operations while our financial results are reported in U.S. dollars. Because our costs will be primarily denominated in pesos, a decline in the value of the dollar to the peso could negatively affect our actual operating costs in U.S. dollars, and our reported results of operations. We do not currently engage in any currency hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on our results of operations. We cannot guarantee that we will enter into any such currency hedging transactions in the future or, if we do, that these transactions will successfully protect us against currency fluctuations.

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*Risk of abandoned operations or decommissioning costs are unknown and may be substantial.*

We may be responsible for costs associated with abandoning land development and product processing facilities, which we intend to use for production of biofuels feedstock. We expect to have long term commitments on land and facilities and short to medium commitments for labor and other services. Abandonment of these developments and contracts and the associated decommissioning costs could be substantial and may have an effect on future profitability.

*Our future profitability is dependent upon many natural factors outside of our control. If these factors do not produce favorable results our future business profitability could be significantly affected.*

Our future profitability is mainly dependent on the production output from our agricultural operations. There are many factors that can effect growth and fruit production of the Jatropha plant including weather, nutrients, pests and other natural enemies of the plant. Many of these are outside of our direct control and could be devastating to our operations.

*The biofuel production industry is extremely competitive. Many of our competitors have greater financial and other resources than we do and one or more of these competitors could use their greater resources to gain market share at our expense.*

The biofuels production industry is extremely competitive. Many of our significant competitors in the industry have substantially greater production, financial, research and development, personnel and marketing resources than we do. As a result, our competitors may be able to compete more aggressively than we could and sustain that competition over a longer period of time. Our lack of resources relative to many of our significant competitors may cause us to fail to anticipate or respond adequately to new developments and other competitive pressures. This failure could reduce our competitiveness and cause a decline in our market share, sales and profitability.

### **Risks Relating to Our Common Stock**

*Our stock is thinly traded, so you may be unable to sell your shares at or near the quoted bid prices if you need to sell a significant number of your shares.*

The shares of our common stock are thinly-traded on the Pink Sheets LLC electronic trading platform, meaning that the number of persons interested in purchasing our common shares at or near bid prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven, early stage company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot give you any assurance that a broader or more active public trading market for our common shares will develop or be sustained, or that current trading levels will be sustained. Due to these conditions, we can give you no assurance that you will be able to sell your shares at or near bid prices or at all if you need money or otherwise desire to liquidate your shares.

*Our existing directors, officers and key employees hold a substantial amount of our common stock and may be able to prevent other shareholders from influencing significant corporate decisions.*

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As of December 11, 2007, our directors and executive officers beneficially owned approximately 35.11% of our outstanding common stock. These shareholders, if they act together, may be able to direct the outcome of matters requiring approval of the shareholders, including the election of our directors and other corporate actions such as:

- our merger with or into another company;
- a sale of substantially all of our assets; and
- amendments to our articles of incorporation.

The decisions of these shareholders may conflict with our interests or those of our other shareholders.

*The market price of our stock may be adversely affected by market volatility.*

The market price of our common stock is likely to be volatile and could fluctuate widely in response to many factors, including:

- fluctuation in the world price of crude oil;
- market changes in the biofuels industry;
- government regulations affecting renewable energy businesses and users;
- actual or anticipated variations in our operating results;
- our success in meeting our business goals and the general development of our proposed operations;
- general economic, political and market conditions in the U.S. and the foreign countries in which we plan to operate;
- and
- the occurrence of any of the risks described in this Quarterly Report.

*Obtaining additional capital through the sale of common stock will result in dilution of shareholder interests.*

We plan to raise additional funds in the future by issuing additional shares of common stock or other securities, which may include securities such as convertible debentures, warrants or preferred stock that are convertible into common stock. Any such sale of common stock or other securities will lead to further dilution of the equity ownership of existing holders of our common stock. Additionally, the existing options, warrants and conversion rights may hinder future equity offerings, and the exercise of those options, warrants and conversion rights may have an adverse effect on the value of our stock. If any such options, warrants or conversion rights are exercised at a price below the then current market price of our shares, then the market price of our stock could decrease upon the sale of such additional securities. Further, if any such options, warrants or conversion rights are exercised at a price below the price at which any particular shareholder purchased shares, then that particular shareholder will experience dilution in his or her investment.

*We are unlikely to pay dividends on our common stock in the foreseeable future.*

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

*Trading of our stock may be restricted by the Securities and Exchange Commission's penny stock regulations, which may limit a shareholder's ability to buy and sell our stock.*

The Securities and Exchange Commission has adopted regulations which generally define “penny stock” to be any equity security that has a market price less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and “accredited investors”.

The term “accredited investor” refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the Securities and Exchange Commission, which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock.

### ITEM 3. CONTROLS AND PROCEDURES.

#### *Evaluation of Disclosure Controls and Procedures.*

We maintain disclosure controls and procedures which are designed to ensure that the information required to be disclosed in the reports it files or submits under the Securities Exchange Act of 1934 (as amended, the "Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer ("Certifying Officer"), to allow timely decisions regarding required financial disclosures.

In connection with the preparation of this Quarterly Report, our Certifying Officer evaluated the effectiveness of management's disclosure controls and procedures, as of March 31, 2007, in accordance with Rules 13a-15(b) and 15d-15(b) of the Exchange Act. Based on that evaluation, the Certifying Officer concluded that management's disclosure controls and procedures were not effective as of March 31, 2007.

As a result of our lack of working capital and insufficient personnel, we were unable to timely file our interim quarterly report for the period ending March 31, 2007 as required under the Act.

#### *Material Weakness in Internal Control Over Financial Reporting*

Subject to oversight by the Audit Committee, management is responsible for establishing and maintaining adequate internal control over our financial reporting as defined in Exchange Act Rule 13a-15(f). The internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles ("GAAP") in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Based on the evaluation performed by them, for the reasons set forth below, our Chief Executive Officer concluded that our disclosure controls and procedures were not effective as of March 31, 2007. The material weakness resulted from our financial condition at the end of fiscal 2006, which caused us to have inadequate staffing of the accounting functions. In addition, as of March 31, 2007, we did not have a Chief Financial Officer.

During September 2007, our Audit Committee conducted an investigation into the foregoing internal control deficiencies. As a result of the investigation, under the direction of the Audit Committee, management is in the process of developing and implementing additional measures designed to ensure that information required to be disclosed in our periodic reports is recorded, processed, summarized and reported accurately. These measures include:

- We have retained Gilderman, Garabedian & Flummerfelt, LLP, an independent accounting firm, to manage our day-to-day internal accounting functions;
- We have retained Osborne, Robbins & Buhler, PLLC, an independent accounting firm, to assist us with the preparation of our financial reports to be included in our period reports required to be filed under the Act;
  - We have consolidated all of our record keeping and accounting functions in our Los Angeles office;
- We have developed and implemented improved accounting and management financial reporting policies and procedures;
- We have hired ADP, Inc., an outside payroll service, to process all payrolls and make the required payroll withholding deductions and deposits; and,
- We have implemented additional banking procedures and imposed additional pre-approval authorization policies.

Our Board of Directors believes that, with the additional measures we have adopted since October 1, 2007, our system of internal controls, disclosure controls and procedures will improve, and be adequate to provide reasonable assurance that the information required to be disclosed in our interim and annual reports is recorded, processed, summarized, and accurately reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our Board of Directors, the Audit Committee, management, including our certifying officers, as appropriate, to allow for timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-15(e). The Audit Committee cannot be certain that its remediation efforts will sufficiently cure management's identified material financial reporting weaknesses. Furthermore, the Audit Committee has not tested the operating effectiveness of the remediated controls, since the process is not yet complete. However, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes.

## **PART II**

### **ITEM 1. LEGAL PROCEEDINGS.**

Please refer to our Annual Report on Form 10-KSB, for the fiscal year ended December 31, 2006, filed with the Securities and Exchange Commission ("SEC") on December 11, 2007 for a description of our current legal proceedings. There have been no material developments with respect to any of the legal proceedings described in our previously filed Annual Report on Form 10-KSB.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

In February 2007, we entered into a consulting agreement ("Consulting Agreement") with Emmes Group Consulting LLC ("Emmes") to assist in resolving our financial issues and provide advice regarding any strategic alternatives that may be available to us. Pursuant to the Consulting Agreement, we issued to Emmes a warrant to purchase 5,000,000 shares of our common stock. The warrant has an exercise price of \$0.03 per share, contains a cash-less exercise



provision, and expires ten years from date of issue.

In February 2007, we entered into a consulting agreement with Valerie A. Heusinkveld to assist with our SEC reporting obligations, including the preparation of financial statements. As compensation for the services, we issued to Ms. Heusinkveld a warrant to purchase 5,000,000 shares of our common stock. The warrant has an exercise price of \$0.03 per share, contains a cash-less exercise provision, and expires ten years from date of issue.

The issuance of the foregoing securities was exempt under Section 4(2) of the Securities Act of 1933, as amended.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

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

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

- 10.13 Consulting Agreement, effective as of February 1, 2007, by and between Medical Discoveries, Inc. and Valerie A. Heusinkveld\*
- 10.14 Consulting Agreement, effective as of February 1, 2007, by and between Medical Discoveries, Inc. and Emmes Group Consulting LLC\*
- 31 Rule 13a-14(a) Certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \*
- 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*

\* Filed herewith.

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**SIGNATURES**

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MEDICAL DISCOVERIES, INC.

Date: December 19, 2007

By: /s/ JUDY ROBINETT

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Judy Robinett  
Chief Executive Officer and interim Chief Financial  
Officer

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