

MEDICAL DISCOVERIES INC

Form DEF 14A

April 12, 2004

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**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a)  
of the Securities Exchange Act of 1934  
(Amendment No.\_\_\_\_)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

**Medical Discoveries, Inc.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement,  
if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

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4) Proposed maximum aggregate value of transaction:

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5) Total fee paid:

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- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

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2) Form, Schedule or Registration Statement No.:

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3) Filing Party:

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4) Date Filed:

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**MEDICAL DISCOVERIES, INC.**

738 Aspenwood Lane  
Twin Falls, Idaho 83301

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD MAY 21, 2004**

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To the Shareholders of Medical Discoveries, Inc.:

You are cordially invited to attend the Annual Meeting of Shareholders (the Meeting ) of Medical Discoveries, Inc. (the Company ) to be held at the Little America Hotel, 500 S. Main Street, Salt Lake City, Utah, on Friday, May 21, 2004, at 1:00 p.m., for the following purposes:

1. To elect three directors of the Company.
2. To ratify the selection of Balukoff Lindstrom & Co., P.A. as independent accountants to audit the financial statements of the Company for the year ending December 31, 2004.
3. To consider a proposal to amend and restate the Articles of Incorporation of the Company to increase the authorized shares of common stock of the Company from 100 million to 250 million and to authorize 50 million shares of undesignated preferred stock of the Company to be designated in the future by the Board of Directors without further action by the shareholders.
4. To approve the Company s 2002 Stock Incentive Plan.
5. To transact such other business as may properly come before the Meeting.

Shareholders of record at the close of business on April 12, 2004 are entitled to notice of and to vote at the Meeting and at any and all adjournments of the Meeting. If you are unable to attend the Meeting in person, you are urged to sign, date and return the enclosed proxy as it is necessary that holders of a majority of the outstanding shares be present, in person or by proxy, in order to obtain a quorum for the Meeting. The proxy may be returned in the accompanying, self-addressed envelope, which requires no postage if mailed in the United States.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ STEPHEN R. DRAKE

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Stephen R. Drake,  
*Secretary*

Dated: April 12, 2004

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**MEDICAL DISCOVERIES, INC.**

738 Aspenwood Lane  
Twin Falls, Idaho 83301

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**PROXY STATEMENT  
Annual Meeting of Shareholders  
To Be Held May 21, 2004**

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**INTRODUCTION**

This Proxy Statement is being furnished to the shareholders of Medical Discoveries, Inc., a Utah corporation ( MDI or the Company ), in connection with the solicitation of proxies by the Board of Directors for use at the Annual Meeting of Shareholders of the Company (the Meeting ) to be held on May 21, 2004 and at any adjournments thereof.

At the Meeting, shareholders will be asked:

(1) To elect three directors of the Company.

(2) To ratify the selection of Balukoff Lindstrom & Co., P.A. as independent accountants to audit the consolidated financial statements of the Company and its subsidiaries for the year ending December 31, 2004.

(3) To consider a proposal to amend and restate the Articles of Incorporation of the Company to increase the authorized shares of common stock of the Company from 100 million to 250 million and to authorize 50 million shares of undesignated preferred stock of the Company to be designated in the future by the Board of Directors without further action by the shareholders.

(4) To approve the Company s 2002 Stock Incentive Plan.

(5) To transact such other business as may properly come before the Meeting or any adjournments of the Meeting.

The Board of Directors has fixed the close of business on April 12, 2004 as the record date (the Record Date ) for the determination of the holders of common stock, no par value ( Common Stock ), entitled to notice of and to vote at the Meeting. Each such shareholder will be entitled to one vote for each share of Common Stock held on all matters to come before the Meeting and may vote in person or by proxy authorized in writing. At the close of business on April 12, 2004, there were 88,654,007 shares of Common Stock entitled to vote.

This Proxy Statement and the accompanying form of proxy are first being sent to holders of the Common Stock on or about April 26, 2004.

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**THE MEETING**

**Date, Time and Place**

The Meeting will be held on May 21, 2004, at 1:00 p.m. local time, at the Little America Hotel, 500 S. Main Street, Salt Lake City, Utah.

**Matters to be Considered**

At the Meeting, shareholders will be asked to consider, and to vote with respect to, the election of three directors, the ratification of the selection of independent accountants, the proposal to amend the Articles of Incorporation of the Company to increase the authorized shares of common stock of the Company from 100 million to 250 million and to authorize 50 million shares of undesignated preferred stock, and the approval of the Company's 2002 Stock Incentive Plan. See ELECTION OF DIRECTORS, RATIFICATION OF SELECTION OF INDEPENDENT ACCOUNTANTS, PROPOSAL TO AMEND AND RESTATE ARTICLES OF INCORPORATION and APPROVAL OF THE 2002 STOCK INCENTIVE PLAN. The Board of Directors knows of no matters that are to be brought before the Meeting other than as set forth in the Notice of Meeting. If any other matters properly come before the Meeting, the persons named in the enclosed form of proxy or their substitutes will vote in accordance with their best judgment on such matters.

**Record Date; Shares Outstanding and Entitled to Vote**

Shareholders as of the close of business on the Record Date (i.e., April 12, 2004) are entitled to notice of and to vote at the Meeting. As of the Record Date, there were 88,654,007 shares of Common Stock outstanding and entitled to be voted. Each share of Common Stock entitles its holder to one vote.

**Voting Procedures**

*Quorum.* The presence at the Meeting, in person or by proxy, of the holders of a majority of the shares of Common Stock outstanding at the close of business on the Record Date will constitute a quorum.

*Election of Directors.* The Company does not have cumulative voting for directors. Under the Utah Revised Business Corporation Act, for each share of Common Stock held, each shareholder is entitled to cast one vote for each of the three directorships to be filled. The three nominees for director receiving the highest number of votes cast will be elected whether or not any one of them receives the vote of a majority of the shares represented and entitled to vote at the Meeting.

*Ratification of Selection of Independent Accountants.* The ratification of the selection of Balukoff Lindstrom & Co., P.A. as independent accountants is being submitted to the shareholders because the Board of Directors believes that such action follows sound corporate practice and is in the best interests of the shareholders. If the shareholders do not ratify the selection of Balukoff Lindstrom & Co., P.A. by the affirmative vote of a majority of the shares of Common Stock represented and entitled to vote at the Meeting, the Audit Committee of the Board of Directors will reconsider this selection, although such a vote will not be binding on the Audit Committee. If the shareholders ratify the selection, the Audit Committee, in its discretion, may nevertheless direct the appointment of new independent accountants at any time if the Audit Committee believes that such a change would be in the interests of the Company and the shareholders.

*Approval of Proposal to Amend Articles of Incorporation.* Under the Utah Revised Business Corporation Act, approval of the proposal to amend the Articles of Incorporation will require the vote of a majority of the shares of Common Stock that actually vote on the proposal.

*Approval of 2002 Stock Incentive Plan.* Under the Utah Revised Business Corporation Act, approval of the proposal to amend the Articles of Incorporation will require the vote of a majority of the shares of Common Stock that actually vote on the proposal.

*Abstentions and Broker Non-votes.* Abstentions and broker non-votes are counted for purposes of determining the number of shares represented and entitled to vote at the Meeting. However, abstentions and

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broker non-votes are not counted in determining the number of shares voted and do not represent a vote either FOR or AGAINST an item of business.

**Voting and Revocation of Proxies**

Shareholders are requested to complete, date, sign and promptly return the accompanying form of proxy in the enclosed envelope. Shares of Common Stock represented by properly executed proxies received by the Company and not revoked will be voted at the Meeting in accordance with the instructions contained therein. If instructions are not given, proxies will be voted FOR election of each nominee for director named herein, FOR ratification of the selection of independent accountants, FOR the approval of the proposal to amend and restate the Articles of Incorporation and FOR the approval of the Company's 2002 Stock Incentive Plan.

Any proxy signed and returned by a shareholder may be revoked at any time before it is voted by filing with the Secretary of the Company, at the address of the Company set forth herein, written notice of such revocation or a duly executed proxy bearing a later date, or by attending the Meeting and voting in person. Attendance at the Meeting will not in and of itself constitute revocation of a proxy.

**Proxy Solicitation**

The Company will bear the costs of solicitation of proxies for the Meeting. In addition to solicitation by mail, directors, officers and regular employees of the Company may solicit proxies from shareholders by telephone, telegram, personal interview or otherwise. Such directors, officers and employees will not receive additional compensation but may be reimbursed for out-of-pocket expenses in connection with such solicitation. Brokers, nominees, fiduciaries and other custodians have been requested to forward soliciting material to the beneficial owners of shares of Common Stock held of record by them, and such custodians will be reimbursed for their reasonable expenses.

**Independent Accountants**

The Company has been advised that representatives of Balukoff Lindstrom & Co., P.A., the Company's independent accountants for 2003, will attend the Meeting, will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

**PROPOSAL NO. 1**

**ELECTION OF DIRECTORS**

At the Meeting, three directors of the Company constituting the entire Board of Directors are to be elected to serve until the next annual meeting of shareholders and until their successors shall be duly elected and qualified. If any of the nominees should be unavailable to serve, which is not now anticipated, the proxies solicited hereby will be voted for such other persons as shall be designated by the present Board of Directors. Certain information with respect to each nominee for director is set forth below.

| <u>Name</u>      | <u>Age</u> | <u>Position</u>                                 | <u>Director Since</u> |
|------------------|------------|-------------------------------------------------|-----------------------|
| David R. Walker  | 59         | Chairman of the Board of Directors              | May 1996              |
| Judy M. Robinett | 51         | President and Chief Executive Officer, Director | November 2000         |
| Larry Anderson   | 55         | Director                                        | Nominee               |

The following paragraphs sets forth certain biographical information about each of the foregoing:

David R. Walker joined the Board of Directors on May 2, 1996, and was appointed Chairman of the Board of Directors on May 10, 1998. He has served as Chairman of the Audit Committee since its inception in 2001. For over 20 years, Mr. Walker has held the office of General Manager of Sunheaven Farms, the largest



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onion growing and packing entity in the State of Washington with annual revenues in excess of \$50 million. In the capacity of General Manager, Mr. Walker performs the functions of a traditional chief financial officer. Mr. Walker holds a Bachelor of Arts degree in economics from Brigham Young University with minors in accounting and finance.

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

Larry Anderson has a wide range of investment banking, sales and entrepreneurial experience. He has held investment banking and stock broker positions with Merrill Lynch, Oppenheimer and Kidder Peabody, managing up to \$300 million in accounts. Mr. Anderson has significant sales experience including holding national sales leader awards while at Automated Data Processing and Qantel. Mr. Anderson is an entrepreneur with numerous start-ups and turn-arounds to his credit. He currently owns and operates, among other companies, C Innovation, a leading K-12 educational software company. Mr. Anderson currently lives in Salt Lake City, Utah, and attended college at Brigham Young University.

The three nominees receiving the highest number of votes at the Meeting will be elected. **The Board of Directors recommends a vote FOR each of the director nominees.**

**INFORMATION CONCERNING THE BOARD OF DIRECTORS,**

**BOARD COMMITTEES AND DIRECTOR COMPENSATION**

**Board Committees and Meetings**

*Audit Committee.* The Company has a separately-designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The functions of the Audit Committee are to assist the Board of Directors in fulfilling its responsibility to oversee the quality and integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the qualifications, independence and performance of the Company's independent accountants, and significant financial matters. In discharging its duties, the Audit Committee is expected to:

have the ultimate authority to select (subject to shareholder ratification, which ratification is not binding on the Audit Committee), compensate, evaluate and replace the Company's independent accountants;

review and approve the scope of the annual external audit;

review and pre-approve the engagement of the Company's independent accountants to perform audit and permitted non-audit services and the related fees;

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meet independently with the Company's accounting staff, independent accountants and senior management;

review the integrity of the Company's financial reporting process; and

review the Company's financial statements and disclosures and certain Securities and Exchange Commission filings.

The current members of the Audit Committee are David R. Walker (Chairman) and Alvin Zidell, each of whom is independent as defined in Rule 4200(a)(14) of the National Association of Securities Dealers' listing standards. There is currently one vacancy on the Audit Committee. The Board of Directors has adopted a written charter for the Audit Committee, which is attached as Annex A to this proxy statement. The Audit Committee meets at such times as may be deemed necessary by the Board of Directors or the Committee. The Audit Committee held four meetings during 2003. At each meeting, the Audit Committee met with management and the Company's independent accountants, and with the independent accountants without management present.

*Audit Committee Financial Expert.* The Board of Directors has determined that David R. Walker is an audit committee financial expert as defined by Item 401(h) of Regulation S-K under the Securities Exchange Act of 1934.

The Board of Directors held a total of five meetings during 2003. During 2003, each incumbent director attended 75% or more of the total number of meetings of the Board and the committees of the Board on which the director served.

Directors are encouraged to attend the Company's annual meetings of shareholders.

The Company does not have a standing executive committee or compensation committee. The compensation of the President and Chief Executive Officer is determined by the Company's independent directors.

The Company does not have a standing nominating committee and the Board of Directors has not adopted a nominating committee charter. The Company is not required to have a compensation committee. However, the Board of Directors intends to establish a standing nominating committee prior to the 2005 Annual Meeting of shareholders. Currently, all members of the Board of Directors participate in the director nomination process. All members of the Board of Directors other than Judy M. Robinett are independent as defined in Rule 4200(a)(14) of the National Association of Securities Dealers' listing standards. The Board of Directors has an informal policy to consider any director nominee nominated by a security holder. The Board of Directors has no written policy concerning qualifications to serve as a director of the Company, but the Board of Directors considers numerous factors when nominating directors, including the nominee's public company experience, the nominee's biotechnology industry experience, the nominee's ability through experience and existing relationships to further the goals of the Company, the nominee's willingness and ability to participate actively on the Board, the nominee's willingness and ability to serve on the Company's Audit Committee and other future committees, the nominee's ability to satisfy the independence standards for the Audit Committee and future expected nominating committee, and the nominee's educational background. The current nominees for director were nominated by the President and Chief Executive Officer and were approved by the Board of Directors as nominees.

**Director Compensation**

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

Directors of the Company and its subsidiaries are entitled to participate in the Company's 2002 Stock Incentive Plan. During the year ended December 31, 2003, the Company granted options to purchase

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300,000 shares of its Common Stock to its independent directors and granted options to purchase 14,500,000 shares of its Common Stock to its director who is also an officer of the Company.

**DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Following is a schedule of names and certain information regarding all of the directors and executive officers of the Company, as of April 2, 2004:

| Name               | Age | Position                              |
|--------------------|-----|---------------------------------------|
| David R. Walker    | 59  | Chairman of the Board of Directors    |
| Judy M. Robinett   | 51  | President and Chief Executive Officer |
| Alvin Zidell       | 73  | Director                              |
| Nilesh Desai, M.D. | 54  | Director                              |
| Stephen R. Drake   | 35  | Secretary                             |

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

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

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

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

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

The executive officers of the Company serve at the pleasure of the Board of Directors. None of the officers are currently employees of the Company.

**EXECUTIVE COMPENSATION**

The following table sets forth certain summary information concerning compensation paid by the Company to the President and Chief Executive Officer (the Named Executive Officer) for the years ended

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December 31, 2003, 2002, and 2001. No other executive officer of the Company received a total annual salary and bonus in excess of \$100,000 during the year ended December 31, 2003.

**Summary Compensation Table**

| Name and Principal Position(s)        | Year | Salary<br>\$(a) | Bonus (\$) | Securities<br>Underlying<br>Options<br>(#) |
|---------------------------------------|------|-----------------|------------|--------------------------------------------|
| Judy M. Robinett                      | 2003 | 220,000         |            | 14,500,000                                 |
| President and Chief Executive Officer | 2002 | 193,336         | 300,000    | 500,000                                    |
|                                       | 2001 | 180,000         | 4,500(b)   | 1,000,000                                  |

(a) Represents total amounts accrued for the period, whether or not actually paid. As of December 31, 2003, the Company had a total payable to Ms. Robinett of \$785,000. During the year ended December 31, 2003, Ms. Robinett was actually paid \$60,000 by the Company.

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

The following table sets forth certain summary information concerning options granted to the Named Executive Officer for the year ended December 31, 2003.

**Options Granted in Last Fiscal Year**

| Name and Principal Position(s)        | Number of<br>Securities<br>Underlying Options | Percent of Total<br>Options Granted to<br>Employees in<br>Fiscal Year | Exercise<br>Price<br>(\$/sh) | Market<br>Price on<br>Date of<br>Grant<br>(\$/sh) | Expiration<br>Date |
|---------------------------------------|-----------------------------------------------|-----------------------------------------------------------------------|------------------------------|---------------------------------------------------|--------------------|
| Judy M. Robinett                      | 500,000                                       | 100%                                                                  | .01                          | .05                                               | 12/31/12           |
| President and Chief Executive Officer | 14,000,000                                    | 100%                                                                  | .02                          | .075                                              | 10/27/13           |

The following table sets forth certain summary information concerning options exercised by the Named Executive Officer during 2003, and the value of options held by such person at December 31, 2003 measured in terms of the average sale price reported for Common Stock on December 31, 2003 (\$.1475, as reported by OTC Bulletin Board).

**Aggregate Option Exercises in 2003 and Option Values at 12/31/2003**

| Name             | Shares<br>Acquired on<br>Exercise (#) | Value<br>Realized<br>(\$) | Number of<br>Securities Underlying<br>Unexercised Options at<br>December 31,<br>2003 (#)<br>Exercisable/Unexercisable | Value of Unexercised<br>In-the-Money Options at<br>December 31,<br>2003 (\$)<br>Exercisable/Unexercisable |
|------------------|---------------------------------------|---------------------------|-----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
| Judy M. Robinett |                                       |                           | 16,000,000/0                                                                                                          | 2,060,000/0                                                                                               |

The Company has never granted any freestanding stock appreciation rights.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

## Edgar Filing: MEDICAL DISCOVERIES INC - Form DEF 14A

The following table sets forth information regarding persons known by the Company to beneficially own, as defined by Rule 13d-3 under the Securities Exchange Act of 1934, more than 5% of Common Stock as of April 12, 2004, based solely on information regarding such ownership available to the Company in filings by such beneficial owners with the SEC on Schedules 13D and 13G. The following table also sets forth

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information regarding beneficial ownership of Common Stock as of April 12, 2004, except as noted below, by the Directors and the Named Executive Officer and by the Directors and Named Executive Officer as a group.

| Name and Address of Beneficial Owner(a)                                  | Number of Shares<br>and Nature of<br>Beneficial<br>Ownership(b) | Percent<br>of<br>Class |
|--------------------------------------------------------------------------|-----------------------------------------------------------------|------------------------|
| <b>Certain Beneficial Owners:</b>                                        |                                                                 |                        |
| Harvest Group, L.L.C<br>2985 North 935 East, Suite 9<br>Layton, UT 84041 | 17,116,337                                                      | 19.5                   |
| Judy M. Robinett                                                         | 16,030,000(c)                                                   | 15.4                   |
| <b>Directors/ Named Executive Officer:</b>                               |                                                                 |                        |
| David R. Walker                                                          | 1,153,539(d)                                                    | 1.3                    |
| Judy M. Robinett                                                         | 16,030,000(c)                                                   | 15.4                   |
| Alvin Zidell                                                             | 882,062(e)                                                      | *                      |
| Nilesh Desai, M.D.                                                       | 567,415(f)                                                      | *                      |
| <b>All Directors and Executive Officers as a Group (4 persons)</b>       | 18,633,016(g)                                                   | 17.6                   |

\* Less than 1%

- (a) Unless otherwise indicated, the business address of each person listed is c/o Medical Discoveries, Inc., 738 Aspenwood Lane, Twin Falls, ID 83301.
- (b) For purposes of this table, shares are considered to be beneficially owned if the person directly or indirectly has the sole or shared power to vote or direct the voting of the securities or the sole or shared power to dispose of or direct the disposition of the securities. Shares are also considered beneficially owned if a person has the right to acquire the beneficial ownership of the shares within 60 days of April 12, 2004. Unless otherwise indicated in these footnotes, each shareholder has sole voting and investment power with respect to the shares beneficially owned.
- (c) Includes 16,000,000 shares that may be acquired upon the exercise of currently exercisable stock options.
- (d) Includes 750,000 shares that may be acquired upon the exercise of currently exercisable stock options.
- (e) Includes 750,000 shares that may be acquired upon the exercise of currently exercisable stock options.
- (f) Includes 175,000 shares that may be acquired upon the exercise of currently exercisable stock options, 133,334 shares that may be acquired by the Desai Family Trust upon the exercise of currently exercisable warrants, and 197,081 shares of common stock owned by the Desai Family Trust.
- (g) Includes 17,808,334 shares that may be acquired upon the exercise of currently exercisable stock options and warrants.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's Executive Officers and Directors, and persons who beneficially own more than 10% of the outstanding shares of Common Stock, to file reports of ownership and changes in ownership with the Securities and Exchange Commission and furnish the Company with copies. Based solely upon a review of the copies of such forms furnished to the Company and written representations from certain reporting persons, the Company believes that for the year ended December 31, 2003 all persons subject to the reporting requirements of Section 16(a) filed the required reports on a timely basis, except as follows: In 2004, each of the directors of the Company filed a Form 3 because the Company's records did not indicate whether or not they were previously filed. Following such filings, each of the directors also filed a Form 4 to report all transactions subsequent to the date they became subject to Section 16(a).

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**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The Company entered into an employment agreement with Judy M. Robinett as of May 15, 2002, pursuant to which Ms. Robinett serves as President and Chief Executive Officer of the Company. The term of the agreement is three years. The agreement provides for a signing bonus of \$200,000 and an annual salary of \$220,000. The agreement also provides for bonuses pursuant to which performance by Ms. Robinett at the target level established by the Board of directors for an annual bonus performance period will result in an incentive payment equal to 50% of her annual salary for the period. Pursuant to the agreement, Ms. Robinett is eligible to participate in all employee benefit programs of the Company applicable to management personnel and is also provided with the use of a Company-owned vehicle. However, the Company currently does not provide benefits or own a vehicle. In the event of termination for cause, death or disability, Ms. Robinett will be entitled to accrued compensation through the date of such event. In the event of termination otherwise than for cause, Ms. Robinett will be entitled, as severance pay, to a cash payment equal to her annual salary then in effect for the longer of two years or the unexpired portion of the term of the agreement. The agreement also contains customary provisions relating to confidentiality and ownership of intellectual property. The agreement does not, however, contain a non-compete provision.

**CODE OF ETHICS**

The Company is not required to adopt a code of ethics and has not adopted a formal code of ethics. The directors intend to do so during the upcoming fiscal year following election of the new Board of Directors.

**AUDIT COMMITTEE REPORT**

The following is the report of the Audit Committee with respect to the Company's audited financial statements for the fiscal year ended December 31, 2003.

**Review with Management**

The Audit Committee has reviewed and discussed the Company's audited financial statements for the fiscal year ended December 31, 2003 with management.

**Review and Discussion with Independent Accountants**

The Audit Committee has also discussed with Balukoff Lindstrom & Co., P.A., the Company's independent accountants, the matters required to be discussed by Statement on Auditing Standards No. 90 (Communication with Audit Committees) regarding the auditor's judgments about the quality of the Company's accounting principles as applied in its financial reporting. The Audit Committee has also received the written disclosures and the letter from Balukoff Lindstrom & Co., P.A. required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with Balukoff Lindstrom & Co., P.A. the matter of its independence.

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**Conclusion**

Based on the review and discussions described in the preceding paragraphs, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements for the fiscal year ended December 31, 2003 be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 for filing with the Securities and Exchange Commission.

**Submitted by the Audit Committee**

David R. Walker, Chairman

Alvin Zidell

*The information contained in this Audit Committee Report is not deemed to be soliciting material or to be filed with the Securities and Exchange Commission, except to the extent that the Company specifically incorporates it by reference into a document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934. Such information is not incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference.*

**PROPOSAL NO. 2**

**RATIFICATION OF SELECTION OF INDEPENDENT ACCOUNTANTS**

The Audit Committee of the Board of Directors has selected Balukoff Lindstrom & Co., P.A. as independent accountants to audit the consolidated financial statements of the Company for the year ending December 31, 2004. Balukoff Lindstrom & Co., P.A. currently serves as the Company's independent accountants. **The Board of Directors recommends a vote FOR the ratification of the selection of Balukoff Lindstrom & Co., P.A. as the Company's independent accountants for the year ending December 31, 2004.**

**PRINCIPAL ACCOUNTANT FEES AND SERVICES**

**Audit Fees**

The aggregate fees for professional services rendered by Balukoff Lindstrom & Co., P.A. for the audit of the Company's annual financial statements for 2003 and 2002, the review of the financial statements included in the Company's Forms 10-Q for 2003 and 2002 totaled \$27,250 and \$28,175, respectively.

**Tax Fees**

The aggregate fees for professional services rendered by Balukoff Lindstrom & Co., P.A. for tax preparation and consultation, for the years ended 2003 and 2002, were \$475 and \$365, respectively.

The engagement of Balukoff Lindstrom & Co., P.A. to render audit and non-audit services for the periods described above was approved in advance by the Company's audit committee. Any additional audit-related or permitted non-audit services proposed by management to be performed by Balukoff Lindstrom & Co., P.A. will be submitted to the Audit Committee for consideration and approval in advance of any engagement to perform such services.

**PROPOSAL NO. 3**

**PROPOSAL TO AMEND AND RESTATE ARTICLES OF INCORPORATION**

The Company will require significant additional funding to continue to develop, research and seek regulatory approval of its technologies. In addition, the Company cannot survive, even in the near term, without immediate additional funding for operations. The Company does not

currently generate any cash from operations and has no credit facilities in place or available. The Board of Directors believes it can raise capital

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through private stock offerings and/or secondary public offerings. Effective April 1, 2004, the Board of Directors unanimously adopted a resolution to amend and restate the Articles of Incorporation of the Company in the form substantially as set forth in Annex B attached to this proxy statement to increase the number of authorized shares of Common Stock from 100 million to 250 million and to provide for 50 million shares of undesignated Preferred Stock. The Board's resolution cannot be implemented without shareholder approval.

As of April 12, 2004, the Company had outstanding 88,654,007 shares of Common Stock. Taking into consideration the shares of Common Stock reserved for issuance upon the exercise of stock options, warrants and convertible notes, there are no shares of Common Stock currently available for issuance.

The proposed amendment will provide the Company with additional authorized and unissued shares of Common Stock and a new undesignated class of Preferred Stock, either of which may be used for various corporate purposes, including financing, business combination and acquisition transactions; stock splits and stock dividends; stock incentive and compensation plans or programs; and other business purposes. The Company has no commitment, arrangement, understanding or agreement, written or oral, regarding the issuance of common stock or preferred stock subsequent to the increase of authorized shares. Furthermore, the Company has no specific plan at this time for such an issuance.

If the proposed Amended and Restated Articles of Incorporation are approved, the increased number of authorized shares of Common Stock will be available for issuance from time to time for such purposes and for such consideration as the Board of Directors may approve and no further vote of the shareholders of the Company will be required for such issuance, except as may be provided for under applicable law or the rules of any stock exchange or other market system on which the Common Stock may then be listed or traded. In addition, the newly created Preferred Stock will be available for designation and issuance from time to time by the Board of Directors without further vote of the shareholders of the Company, except as may be provided for under applicable law or the rules of any stock exchange or other market system on which the Common Stock or Preferred Stock may then be listed or traded.

The rights of the Board of Directors to designate and issue specific series of Preferred Stock will include, without limitation, the right to determine or designate the following with respect to each series:

The distinctive designation and number of shares comprising such series, which number may (except where otherwise provided by the Board of Directors in creating such series) be increased or decreased (but not below the number of shares then outstanding) from time to time by like action of the Board of Directors;

The dividend rate of such series, the conditions and times upon which such dividends shall be payable, the relation which such dividends shall bear to the dividends payable on any other class or classes of stock or series thereof, or on the other series of the same class, and whether dividends shall be cumulative or noncumulative;

The conditions upon which the shares of such series shall be subject to redemption by the Company and the times, prices and other terms and provisions upon which the shares of the series may be redeemed;

Whether or not the shares of the series shall be subject to the operation of retirement or sinking fund provisions to be applied to the purchase or redemption of such shares and, if such retirement or sinking fund be established, the annual amount thereof and the terms and provisions relative to the operation thereof;

Whether or not the shares of the series shall be convertible into or exchangeable for shares of any other class or classes, with or without par value, or of any other series of the same class and, if provision is made for conversion or exchange, the times, prices, rates, adjustments and other terms and conditions of such conversion or exchange;

Whether or not the shares of the series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;

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The rights of the shares of the series in the event of voluntary or involuntary liquidation, dissolution or upon distribution of assets of the Company; and

Any other designations, preferences, limitations and relative rights of the shares of such series, as the Board of Directors may deem advisable.

Shareholders should refer to Annex B for the complete proposed Amended and Restated Articles of Incorporation.

While the Company believes that equity offerings are a viable option to raise capital, there can be no assurance that the Company will actually commence any type of equity offering, or that if commenced, such an offering will be successful.

The shares of Common Stock authorized pursuant to the proposed Amended and Restated Articles of Incorporation would be identical to the shares of Common Stock currently authorized. Holders of Common Stock do not have preemptive rights to subscribe for additional securities that may be issued by the Company. The authorization of additional shares of Common Stock pursuant to the proposed amendment will not, by itself, have any effect on the rights of existing shareholders. The issuance of such shares, however, could dilute the rights of existing shareholders.

Because the proposed amendment would allow the Company to issue a significant number of shares of Common Stock and Preferred Stock in connection with future transactions, it is possible that a change in control of the Company could occur. However, no such transactions are contemplated at this time.

The proposed amendment is not intended to have any anti-takeover effect and is not part of any series of anti-takeover measures. **The Board of Directors recommends a vote FOR the proposal to amend and restate the Articles of Incorporation.**

**PROPOSAL NO. 4**

**PROPOSAL TO APPROVE 2002 STOCK INCENTIVE PLAN**

As of July 11, 2002, the Board of Directors adopted the 2002 Stock Incentive Plan (the Plan), which was amended on March 6, 2003 to increase the number of shares of Common Stock subject to the Plan to 20 million. The Plan is submitted to the shareholders for approval at this Meeting. While the Company is not required to obtain shareholder approval of the Plan, the Company believes it is good corporate practice to seek shareholder approval of all stock option and incentive plans. This Meeting was the first convenient opportunity for the Company to seek such approval.

The Board of Directors of the Company believes that the availability of stock options and other stock incentives is an important factor in the Company's ability to attract and retain qualified employees and to provide an incentive for them to exert their best efforts on behalf of the Company. In addition, in light of the limited amount of working capital available to it, the Company has, and may periodically continue to, use stock options and other incentive awards to compensate consultants that provide services to the Company.

**Description of the 2002 Stock Incentive Plan**

The following summary of the Plan is qualified in its entirety by reference to the full text of the Plan, a copy of which attached as Annex C to this proxy statement.

***Purpose of the Plan***

The purpose of the Plan is to enable the Company to attract and retain the services of (1) selected employees, officers and directors and (2) selected nonemployee agents, consultants, advisers and independent contractors. For purposes of the Plan, a person is considered to be employed by the Company or in the Company's service if the person is employed by the Company or in the service of the Company or any parent or subsidiary of the Company.

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### ***Administration***

The Company's Board of Directors administers the Plan. Subject to the provisions of the Plan, the Board of Directors may adopt and amend rules and regulations relating to the administration of the Plan, advance the lapse of any waiting period, accelerate any exercise date, waive or modify any restriction applicable to shares not imposed by law and make all other determinations in the judgment of the Board of Directors necessary or desirable for the administration of the Plan.

The Board of Directors may delegate to a committee of the Board of Directors or specified officers of the Company, or both any or all authority for administration of the Plan except that only the Board of Directors may amend or terminate the Plan. The Board of Directors may delegate to any officer or officers of the Company authority to grant awards under the Plan, subject to any restrictions the Board of Directors may impose.

The interpretation and construction of the provisions of the Plan and related agreements by the Board of Directors is final and conclusive. The Board of Directors may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any related agreement in the manner and to the extent it deems expedient to carry the Plan into effect, and the Board of Directors shall be the sole and final judge of such expediency.

### ***Eligibility and types of awards under the Plan***

Grants under the Plan may be awarded to select directors, officers, employees, non-employee agents, consultants, advisers, and independent contractors of the Company or any parent or subsidiary of the Company. The Plan permits the Board of Directors to grant Incentive Stock Options, Nonstatutory Stock Options, stock bonus awards and to sell shares subject to any terms, conditions and restrictions they determine.

### ***Shares Reserved for Issuance Under the 2002 Incentive Plan***

The Board of Directors has reserved a total of 20,000,000 shares of the Company's common stock for issuance under the Plan. The number and kind of shares available for grants under the Plan and all other share amounts set forth in the Plan shall be appropriately adjusted by the Board of Directors if the outstanding common stock is increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any stock split, combination of shares, dividend payable in shares, recapitalization or reclassification. In addition, the Board of Directors shall make appropriate adjustment in the number and kind of shares as to which outstanding options, or unexercised portions thereof, shall be exercisable so that the optionee's proportionate interest before and after the occurrence of the event is maintained. Any such adjustments by the Board of Directors shall be conclusive.

If an option granted under the Plan expires, terminates or is canceled, any unissued shares become available under the Plan. If shares awarded as a bonus or sold as restricted stock are forfeited to the Company or repurchased by the Company, the shares forfeited or repurchased shall again become available for issuance under the Plan.

### ***Amendment and Termination of the Plan***

The Board of Directors may amend the Plan at any time. Except as specified in the Plan with respect to treatment of options in case of a merger or reorganization and changes in outstanding options in connection with changes in capital structure, no change in an option already granted may be made without the consent of the holder of the option.

The Plan will continue until all shares available for issuance under the Plan have been issued and all restrictions on such shares have lapsed or when earlier terminated by the Board of Directors. The Board of Directors may suspend or terminate the Plan at any time. Early termination of the Plan shall not affect any outstanding options or shares subject to restrictions, any right of the Company to repurchase shares or the forfeitability of shares issued under the Plan.

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***Stock Options***

With respect to each grant, the Board of Directors determines the persons to whom options are granted, the option price, the number of shares subject to each option, the period of each option and the time or times at which the options may be exercised and whether the option is an Incentive Stock Option or a Nonstatutory Stock Option. At the time of grant of an option or at any time thereafter, the Board of Directors may provide that an optionee who exercised an option with Common Stock of the Company shall automatically receive a new option to purchase additional shares equal to the number of shares surrendered and may specify the terms and conditions of the new options.

Only employees are eligible to receive Incentive Stock Options. The aggregate amount of shares for which Incentive Stock Options may become exercisable under the Plan and other stock incentive plans of the Company for the first time in any calendar year for an optionee may not exceed \$100,000 measured on the fair market value of the stock on the date of grant. If the aggregate fair market value exceeds \$100,000 in any year, that portion of the option or options that do not exceed \$100,000, to the extent of whole shares, shall be treated as an Incentive Stock Option and the remaining portion shall be treated as a Nonstatutory Stock Option. This treatment will be applied to multiple options in the order in which they were granted. The Company will treat an exercise of all or any portion of an Incentive Stock Option below the \$100,000 limitation as an Incentive Stock Option to the full extent permitted under the \$100,000 limitation unless the optionee designates the option otherwise. The Board of Directors may at any time without the consent of the optionee convert an Incentive Stock Option into a Nonstatutory Stock Option.

*Option Price.* The Board of Directors shall determine the exercise price per share for an option at the time it is granted subject to certain restrictions. If the option is an Incentive Stock Option, the option price cannot be less than the fair market value of the common stock on the date of grant. If an optionee of an Incentive Stock Option at the time of grant owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, the option price may not be less than 110% of the fair market value of the common stock on the date of grant. For this purpose, fair market value shall be the closing price of the common stock last reported before the time the option is granted, if the stock is publicly traded, or any other value of the common stock as specified by the Board of Directors.

*Nontransferability.* Incentive Stock Options and, unless otherwise determined by the Board of Directors, Nonstatutory Stock Options under the Plan shall not be assignable or transferable by an optionee, either voluntarily or by operation of law, other than by the optionee's will or the laws of descent or distribution of the state or country of domicile at the time of death of an optionee. During an optionee's lifetime, an option may be exercised only by the optionee.

*Duration and Exercise of Options.* Options may be exercised in amounts and at times determined by the Board of Directors. Unless otherwise determined by the Board of Directors, if the optionee does not exercise an option in any one year for the full number of shares to which the optionee is entitled in that year, the optionee may purchase those shares in any subsequent year during the term of the option.

Incentive Stock Options granted under the Plan expire on the date fixed by the Board of Directors subject to two restrictions:

(i) no Incentive Stock Option may be exercised after the expiration of 10 years from the date it is granted, and

(ii) if the recipient of an Incentive Stock Option owns stock possessing more than 10 percent of the combined voting power of all classes of our stock at the time of grant, the expiration date of the option may not be more than five years after the date of grant.

If an optionee sells or otherwise disposes of the shares of common stock acquired on exercise of an Incentive Stock Option within two years after it is granted or within 12 months after it is exercised, then, within 30 days of the sale or disposition, the optionee shall notify the Company in writing of (i) the date of the sale or disposition, (ii) the amount realized on the sale or disposition and (iii) the nature of the sale or disposition.

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Unless otherwise determined by the Board of Directors, any option granted to a non-exempt employee of the Company subject to the overtime compensation provisions of Section 7 of the Fair Labor Standards Act ( FLSA ) shall not be exercisable until at least six months after the date it is granted. This six-month restriction on exercisability will cease to apply, however, if the employee dies, becomes disabled or retires, there is a change in ownership of the Company, or in other circumstances permitted by regulation, all as prescribed in Section 7(e)(8)(B) of the FLSA.

Except as described under Termination of Employment or Service, Death and Assignment below or as determined by the Board of Directors, an option may not be exercised unless the optionee is an employee of, or is providing service to, the Company when exercised and has been continuously so employed or providing service since the date the option was granted. Absence on leave approved by the Company or on account of illness or disability shall not be deemed a termination or interruption of employment or service for this purpose. Unless otherwise determined by the Board of Directors, vesting of options shall continue during a medical, family or military leave of absence, whether paid or unpaid, and vesting of options shall be suspended during any other unpaid leave of absence.

To exercise an option, the optionee must:

- (i) pay of the full purchase price for the shares purchased, and
- (ii) submit a written notice to us of the optionee's binding commitment to purchase shares.

The notice must specify the number of shares of common stock for which the optionee wishes to exercise the option and the date on which the optionee desires to complete the transaction.

The full purchase price must be paid in cash or by check on or before the date specified for completion of the purchase of the shares unless the Board of Directors determines otherwise. Additionally, with the approval of the Board of Directors, an optionee may pay for all or some of the shares with shares of our common stock valued at fair market value, restricted stock, other contingent awards denominated in either stock or cash, promissory notes and other forms of consideration. Unless otherwise determined by the Board of Directors, common stock provided in payment must have been previously acquired by the optionee and held by the optionee for at least six months. For purposes of valuing the common stock provided in payment of the purchase price, the fair market value shall be the closing price of the common stock last reported before the time payment in common stock is made or, if earlier, committed to be made if the common stock is publicly traded, or, if not, another value of the common stock as specified by the Board of Directors. No shares shall be issued until full payment has been made, including all amounts owed for tax withholding. With the consent of the Board of Directors, an optionee may request the Company to apply the shares to be received upon the exercise of a portion of a stock option (even though stock certificates have not yet been issued) to satisfy the purchase price for additional portions of the option automatically. The optionee must comply with any requirements specified by the Board of Directors for satisfaction of applicable federal, state and local tax withholding requirements, as well as any applicable federal or state securities laws.

*Termination of Employment or Service, Death and Assignment.* Unless otherwise determined by the Board of Directors, if an optionee ceases to be employed by or to provide service to the Company for any reason other than death, total disability or bona fide early retirement, as defined in the Plan, the optionee may exercise any option that he or she holds at the date that employment terminates at any time before the expiration date of the option or 3 months (6 months for a Nonqualified Stock Option) following the termination date of the optionee, whichever is earlier, but only if and to the extent the option was exercisable as of the termination date. Any portion of an option not exercisable at the date of termination will lapse.

Unless otherwise determined by our Board of Directors, if the optionee's employment or service terminates because of total disability, the optionee may exercise any option held on the termination date at any time before the earlier of the option's expiration date or 3 months (6 months for a Nonqualified Stock Option) after the date of termination, but only to the extent the option was exercisable on the date of termination. The term total disability means a medically determinable mental or physical impairment of the optionee which is expected to result in death or which has lasted or is expected to last for a continuous period of 12 months or more and which, in the opinion of the Board of Directors and the opinion of two independent physicians,

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causes the optionee to be unable to perform his or her duties as an employee, director, officer or consultant of the Company and to be engaged in any substantial gainful activity. Total disability shall be deemed to have occurred on the first day after the two independent physicians have furnished their written opinion of total disability to the Company and the Board of Directors has reached an opinion of total disability.

Unless otherwise determined by the Board of Directors, if an optionee dies while in the Company's employment or providing services to the Company, any option may be exercised at any time before the expiration date of the option or before the date that is 12 months after the date of death, whichever is the shorter period. The option may be exercised, however, only if and to the extent the optionee was entitled to exercise the option at the date of death and only by the person or persons to whom the optionee's rights under the option pass by the optionee's will or by the laws of descent and distribution of the state or country of the optionee's domicile at the time of death.

To the extent that the option of any deceased optionee or any optionee whose employment or service terminates is not exercised within the applicable period, all further rights to purchase shares pursuant to the option shall cease and terminate.

***Stock Bonuses***

The Board of Directors may award shares under the Plan as stock bonuses. Shares awarded as a bonus shall be subject to the terms, conditions and restrictions determined by the Board of Directors. The restrictions may include restrictions concerning transferability and forfeiture of the shares awarded. The Board of Directors may require the recipient to sign an agreement as a condition of the award, but may not require the recipient to pay any monetary consideration other than amounts necessary to satisfy tax withholding requirements. The agreement may contain any terms, conditions, restrictions, representations and warranties required by the Board of Directors. The certificates representing the shares awarded shall bear any legends required by the Board of Directors.

The Company may require any recipient of a stock bonus to pay to the Company in cash or by check upon demand amounts necessary to satisfy any applicable federal, state or local tax withholding requirements. If the recipient fails to pay the amount demanded, the Company may withhold that amount from other amounts payable to the recipient, including salary, subject to applicable law. With consent of the Board of Directors, a recipient may satisfy this obligation, in whole or in part, by instructing the Company to withhold from any shares to be issued or by delivering to the Company other shares of common stock of the Company. However, the number of shares so withheld or delivered cannot exceed the minimum amount necessary to satisfy the required withholding obligations.

***Restricted Stock***