

MEDICAL DISCOVERIES INC
Form 10KSB
December 11, 2007

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

FORM 10-KSB

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: **0-12627**

MEDICAL DISCOVERIES, INC.
(Exact name of Small Business Issuer as specified in its charter)

Utah
(State or other jurisdiction
of
incorporation or
organization)

87-0407858
(I.R.S. Employer
Identification Number)

**6033 W. Century Blvd, Suite
1090,
Los Angeles, California 90045**
(Address of principal executive
offices)

(310) 670-7911
Issuer's telephone number:

Securities registered under Section 12(b) of the Act: None.

Securities registered under Section 12(g) of the Act: Common Stock, no par value

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. "

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Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

The issuer had \$800,000 of revenues for its most recent fiscal year.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, as of November 30, 2007, was \$8,020,111.

As of November 30, 2007, the issuer had 197,643,780 shares of Common Stock outstanding, which includes 22,837,593 shares of common stock currently held in escrow.

Transitional Small Business Disclosure Format: Yes No

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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. All statements other than statements of historical fact are “Forward-Looking Statements” for purposes of these provisions, including our plans to cultivate, produce and market non-food based feedstock for applications in the biofuels market, any projections of 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 n or other comparable 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 press releases and reports filed with the Securities and Exchange Commission. All subsequent Forward-Looking Statements attributable to the 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 operating results are described under “Risk Factors” and elsewhere in this report.

Introductory Comment

Throughout this Annual Report on Form 10-KSB, 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.

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

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 this 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 its 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 plant feedstock to generate 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 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 and 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 Annual Report on Form 10-KSB 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 and the placement of debt, including the sale of our Series A Convertible Preferred Stock. To date, we have not generated significant revenues from operations or realized a profit. Through December 31, 2006, we had incurred cumulative net losses of more than \$22 million since inception.

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. The FDA has concluded that our IND application did not contain sufficient toxicology and genetic toxicology data to support the safety of the proposed clinical trial. We considered the uncertainty of the efficacy and safety of the MDI-P compound, the costs involved in further developing the compound and the limited market, and thereafter concluded that we did not have the capability or capacity to take the MDI-P compound to commercialization. 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 to approve the Eucodis transaction after our pending proxy statement has been cleared for use by the SEC.

We also entertained various offers to purchase our rights to the MDI-P compound. 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 be able to provide our shareholders with future value. Our Board has decided to develop a business to produce and sell seed oils, including seeds 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 7, 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. See, "Item 1. Description of Business—The Jatropha Business," below.

Overview of Legacy Bio-Pharmaceutical Business.

Prior to our transition to our new Jatropha Business, we were engaged in the development of two potential drug candidates that we referred to as "SaveCream" and "MDI-P." We purchased our SaveCream technologies from the liquidator of Savetherapeutics AG i.L., pursuant to an asset purchase agreement dated March 11, 2005. The SaveCream assets consist primarily of patents, patent applications, pre-clinical study data and anecdotal clinical trial data concerning SaveCream. We purchased the SaveCream assets for €2,350,000 payable as follows: €500,000 at closing, €500,000 upon conclusion of certain pending transfers of patent and patent application rights from SaveCream's inventors to the Company, and €1,350,000 upon successful commercialization of the Assets. In addition to purchasing the SaveCream asset, we were developing MDI-P as an anti-infective drug for the treatment of bacterial infections, viral infections and fungal infections. In addition, we considered that MDI-P could be a useful therapy for the treatment of cystic fibrosis. However, the commencement of human clinical trials of MDI-P was on Full Clinical Hold

by the FDA because the FDA concluded that our IND application did not contain sufficient toxicology and genetic toxicology data to support the safety of the proposed clinical trial. Our business strategy was to further develop the SaveCream asset, and to commence human clinical trials of MDI-P for cystic fibrosis following completion of the required toxicity and genetic toxicity testing.

Prior to the sale of the MDI-P asset, we held eight United States Patents, two Japanese patents and a Mexican patent covering various applications for MDI-P, the machinery that manufactures it and the method by which it is manufactured. The U.S. Patents were as follows:

- Patent No. 5,334,383: “Electrically Hydrolyzed Salines as In Vivo Microbicides for the Treatment of Cardiomyopathy and Multiple Sclerosis”
 - Patent No. 5,507,932: “Apparatus for Electrolyzing Fluids”
 - Patent No. 5,560,816: “Method for Electrolyzing Fluids”
- Patent No. 5,622,848: “Electrically Hydrolyzed Saline Solution as Microbicides for In Vitro Treatment of Contaminated Fluids Containing Blood”
- Patent No. 5,674,537: “An Electrolyzed Saline Solution Containing Concentrated Amount of Ozone and Chlorine Species”
 - Patent No. 5,731,008: “Electrically Hydrolyzed Salines as Microbicides”
 - Patent No. 6,007,686: “System for Electrolyzing Fluids for Use as Antimicrobial Agents”
 - Patent No. 6,117,285: “System for Carrying Out Sterilization of Equipment”

The Japanese and Mexican patents provided coverage in those countries for several of the U.S. patents. We also held pending applications with the US Patent and Trademark Office for patents on MDI-P as a pharmaceutical treatment for cystic fibrosis, sepsis and asthma, including (i) a patent application for the use of MDI-P in the treatment of sepsis, (ii) a provisional patent application for the use of MDI-P in the treatment of sepsis, and (iii) a provisional patent application for the use of MDI-P in the treatment of asthma.

We also held intellectual property assets relating to the SaveCream drug, including the following four patent families which are the subject of on-going litigation in the German Federal Court in Hamburg, Germany:

- “Substances and Agents for Positively Influencing Collagen.” This included a EU patent application and a Canadian patent.
- “Topical Treatment for Mastalgia.” This included U.S. patent application 10/416,096 filed October 30, 2001, and a European Union patent application.
- “Medicament for Preventing and/or Treating a Mammary Carcinoma Containing a Steroidal Aromatase Inhibitor.” This included a U.S. patent application, No. 09/646,355, filed November 16, 2000 and divisional and continuation applications based upon the initial application.
- “Aromatase Marking.” This included a U.S. Patent application, No. 10/487,953, filed August 28, 2002, as well as a European Union patent application.

Competition for our bio-pharmaceutical drugs

The biotechnology and pharmaceutical industries are characterized by rapidly evolving technologies and intense competition. Our competitors in the bio-pharmaceutical market included many major pharmaceutical, and specialized biotechnology companies, most of which have financial, technical, and marketing resources significantly greater than ours. Fully integrated pharmaceutical companies, due to their expertise in research and development, manufacturing, testing, obtaining regulatory approvals, and marketing, as well as their substantially greater financial and other resources, were our most formidable competitors. In addition, colleges, universities, governmental agencies, and other public and private research organizations are becoming more active in seeking patent protection and licensing arrangements to collect royalties for use of technology that they have developed. These institutions also competed with us in recruiting and retaining highly qualified scientific personnel.

In particular, we faced competition from the manufacturers of products that would have competed with MDI-P and SaveCream in the event we successfully commercialized both drugs. The products currently available for the treatment of targeted by SaveCream and MDI-P included drugs produced by Pfizer, Bristol-Myers Squibb, Boehringer Ingelheim, GlaxoSmithKline, Gilead Sciences, Hoffman-La Roche, Merck, Abbott Laboratories, Agouron Pharmaceuticals, Abraxis BioScience, Inc., AstraZeneca and Trimeris. The significant pressure we faced from competitors with substantially greater financial and other resources contributed to our decision to exit the biotechnology and pharmaceutical industries.

Government Regulations

Our prior intention to use MDI-P and SaveCream as pharmaceuticals made us subject to extensive regulation by United States and foreign governmental authorities. In particular, pharmaceutical treatments are subject to rigorous preclinical and clinical testing and other approval requirements by the FDA in the United States under the federal Food, Drug and Cosmetic Act and by comparable agencies in most foreign countries. Various federal, state and foreign statutes also govern or influence the manufacture, labeling, storage, record keeping, and marketing of such products. Pharmaceutical manufacturing facilities are also regulated by state, local, and other authorities. Obtaining approval from the FDA and other regulatory authorities for a new drug or treatment may take several years and involve substantial expenditures. Moreover, ongoing compliance with these requirements can require the expenditure of substantial resources. The delays and extensive costs associated with our efforts to commercialize MDI-P and SaveCream contributed to our decision to exit the biotechnology and pharmaceutical industries.

Recent Developments.

Asset Sale

On July 6, 2007, we entered into a sale and purchase agreement (as amended, the "SaveCream Asset Sale Agreement") with Eucodis Pharmaceuticals Forschungs - und Entwicklungs GmbH, an Austrian company ("Eucodis"), pursuant to which Eucodis agreed to acquire our SaveCream assets in consideration for a cash payment and the assumption by Eucodis of certain of our current indebtedness (such transactions, collectively, the "SaveCream Asset Sale"). Pursuant to the SaveCream Asset Sale Agreement, as amended, the Asset Sale is scheduled to close on or before January 31, 2008.

The assets to be acquired by Eucodis pursuant to the SaveCream Asset Sale Agreement include all of our right, title and interest in all patents, patent applications, regulatory files, pre-clinical study data and anecdotal clinical trial data concerning our "SaveCream" drug candidate. We acquired SaveCream and certain other related intellectual property assets from the liquidator of Savetherapeutics AG i.L., a German company, pursuant to a certain asset purchase agreement dated as of March 11, 2005. At the closing of the SaveCream Asset Sale, we will also assign to Eucodis all of our right, title and interest in a certain co-development agreement with Eucodis, dated as of July 29, 2006, related

to the co-development and licensing of SaveCream, and our rights under certain other contracts relating to SaveCream. We also intend to close our wholly owned subsidiary MDI Oncology, Inc. upon the closing of the sale of the SaveCream asset to Eucodis.

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The purchase price payable by Eucodis under the SaveCream Asset Sale Agreement will be €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 (ii) 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. In addition, at the closing of the SaveCream Asset Sale, Eucodis will assume all of our financial and other obligations under certain other contracts relating to SaveCream, and reimburse us for certain costs we have incurred since February 28, 2007 in connection with preserving the assets to be acquired by Eucodis under the SaveCream Asset Sale Agreement.

In addition, we have agreed to a non-compete provision for the duration of five years after the closing of the SaveCream Asset Sale. Specifically, the non-compete provision will restrict us, and our affiliates, from undertaking research and development activities with respect to SaveCream, or any other product that could be used in reasonable substitution of SaveCream, or commercializing any products based on SaveCream, unless expressly authorized by Eucodis.

Global Clean Energy Holdings, LLC -- Share Exchange Agreement

In connection with our efforts to commence the Jatropha Business, on September 7, 2007, we entered into a share and exchange agreement (the "Global Agreement") pursuant to which we acquired all of the outstanding ownership interests in Global Clean Energy Holdings, LLC, a Delaware limited liability company ("Global"). Global is a company that owns 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 seed of the Jatropha plant, for the purpose of providing feedstock oil intended for the production of bio-diesel. Richard Palmer and Mobius Risk Group, LLC, a Texas limited liability company engaged in providing energy risk advisory services ("Mobius"), were the sole owners of the outstanding equity interests of Global. Richard Palmer was also a member of Global.

In exchange for all of the outstanding ownership interests in Global, we issued 63,945,257 shares of our common stock to Richard Palmer and Mobius. The shares issued to Mr. Palmer and Mobius in the acquisition of Global represented 35% of our outstanding shares of common stock immediately after the acquisition (excluding the shares of Series A Convertible Preferred Stock). Of the 63,945,257 shares issued under the Global Agreement, 36,540,146 shares were issued and delivered to Mr. Palmer (5,220,021 shares) and Mobius (31,320,125 shares) at the closing of the Global Agreement without any restrictions. The remaining 27,405,111 shares of common stock were, however, issued as restricted shares, subject to forfeiture in the event that certain specified performance milestones are not achieved. The restricted shares are being held by us in escrow until such shares are either released or cancelled. An aggregate of 23,490,095 restricted shares were issued to Mobius, and 3,915,016 restricted shares were being issued to Palmer. If and when certain specified milestones are achieved, the restricted shares will be released and delivered to Mr. Palmer and Mobius in accordance with the terms and conditions of the Global Agreement. During the time that the restricted shares are restricted and subject to forfeiture, the restricted shares shall be outstanding shares for all purposes and shall be entitled to vote and receive dividends, if any are declared. As of November 30, 2007, a total of 4,567,518 of Mr. Palmer and Mobius' restricted shares were released from the restrictions and delivered on a pro rata basis per the terms of the Global Agreement to Mr. Palmer and Mobius.

In order to obtain the expertise necessary to exploit the assets we acquired under the Global Agreement, we also entered into an employment agreement with Richard Palmer, and a consulting agreement with Mobius.

Mobius Consulting Agreement

Concurrent with the execution of the Global Agreement, we entered into a consulting agreement with Mobius pursuant to which Mobius has agreed to provide consulting services to us in connection with our new Jatropa Business. We engaged Mobius as consultant to obtain Mobius' experience and expertise in the feedstock/bio-diesel market to assist us in developing our new business operations. Mobius' compensation for the services provided under the consulting agreement is a monthly retainer of \$45,000; the term of the Mobius consulting agreement is twelve months, or such shorter period until the scope of work under the agreement has been completed.

Employment Agreement

On September 7, 2007, we entered into an employment agreement (effective as of September 1, 2007) with Richard Palmer pursuant to which we hired Mr. Palmer to serve as our President and Chief Operating Officer. Mr. Palmer was also appointed to serve as director on our Board to serve until the next election of directors by our shareholders. Upon the resignation of the current Chief Executive Officer, Mr. Palmer also will become our Chief Executive Officer. We hired Mr. Palmer to take advantage of his experience and expertise in the feedstock/bio-diesel industry, and in particular, in the Jatropa bio-diesel and feedstock business.

Under Mr. Palmer's employment agreement, we granted Mr. Palmer an incentive option to purchase up to 12,000,000 shares of our common stock at an exercise price of \$0.03 (the trading price on the date the agreement was signed), subject to our achievement of certain market capitalization goals. The option expires after five years. In addition, Mr. Palmer's compensation package includes a base salary of \$250,000, and a bonus payment contingent on Mr. Palmer's satisfaction of certain performance criteria, which will not exceed 100% of Mr. Palmer's base salary. The term of employment commenced September 1, 2007 and ends on September 30, 2010, unless terminated earlier in accordance with the terms of that agreement.

Appointment of New Directors

At a meeting of our Board held on August 30, 2007, the Board appointed three individuals to fill three vacancies on the Board. In connection with covenants we made under the Global Agreement and Mr. Palmer's employment agreement, the Board appointed Richard Palmer and Eric J. Melvin to fill two of the vacancies on the Board. In addition, the Board appointed Martin Schroeder to fill the final vacancy on the Board. Messrs. Palmer, Melvin and Schroeder will stand for re-election at our next annual meeting of shareholders. All of the appointments were contingent upon, and became effective as of the consummation of the Global Share Exchange Agreement and the execution of Mr. Palmer's employment agreement.

Mr. Eric Melvin currently is the Chief Executive Officer of Mobius and a principal owner of that energy consulting business.

Mr. Richard Palmer is our newly appointed President and Chief Operating Officer. Prior to joining us, Mr. Palmer was a Vice President of Mobius, specializing in providing consulting services related to alternative energy sources, including bio-diesel feedstock production. Mr. Palmer also owns a minority equity interest in Mobius.

Mr. Martin Schroeder currently is the Executive Vice President & Managing Director of The Emmes Group, Inc., a strategic business development, assessment and planning organization specializing in the support of firms engaged in the consumer product, technology, internet, medical diagnostic, biotechnology, and pharmaceutical industries. He also is the principal of Emmes Group Consulting, LLC. Mr. Schroeder has been providing consulting services to us since February 2007.

Lodemo Services Agreement

On October 15, 2007, we entered into a Service Agreement (the “Lodemo Agreement”) with Corporativo LODEMO S.A DE CV, a Mexican corporation (the “Lodemo Group”) in connection with our new Jatropha Business. We have decided to initiate our Jatropha Business in Mexico, and have 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, we entered into the Lodemo Agreement with the Lodemo Group, a privately held Mexican company with substantial land holdings, significant experience in fuel distribution and sales, liquids transportation, logistics, land development and agriculture.

Under our supervision, the Lodemo Group will be responsible for the establishment, development, and day-to-day operations of our 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 our 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 us. The Lodemo Group will be responsible for hiring and managing all necessary employees. We will bear all direct and budgeted costs of the Jatropha Business in Mexico.

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. We have 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 we may terminate 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 its operations pending the closing of the SaveCream Asset Sale Agreement, on September 7, 2007, we entered into a loan and security agreement (“Loan Agreement”) with Mercator Momentum Fund III, L.P., a California limited partnership, pursuant to which Mercator Momentum Fund III, L.P. made available to us a secured term credit facility in the aggregate principal amount of \$1,000,000 (the “Loan”). As of November 30, 2007, we have drawn down a total of \$350,000 under the Loan Agreement, and we have issued a secured promissory note to Mercator Momentum Fund III, L.P. in the aggregate principal amount of \$350,000 (the “Note”). Interest is payable on the Loan and the Note at a rate of 12% per annum, payable monthly. The loan matures and becomes due and payable on December 14, 2007. The Loan is secured by a first priority lien on all of our assets. Mercator Momentum Fund III, L.P. and its affiliates currently own all of the issued and outstanding shares of Series A Convertible Preferred Stock. We have used the proceeds of the Loan to fund our working capital needs.

Series B Preferred Stock

In order to obtain additional working capital, on November 6, 2007, we entered into a Securities Purchase Agreement (the “Securities Purchase Agreement”) with two accredited investors, pursuant to which we 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 two purchasers of our Series B Shares are parties, which we expect to be engaged in our Jatropha Business in Mexico.

The Series B Shares may, at the option of each holder, be converted at any time or from time to time into fully paid and non-assessable 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, recapitalizations 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 our 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 our company then available for distribution to shareholders; subject, however, to the senior rights of the holders of our Series A Convertible Preferred Stock.

No dividends are required to be paid to holders of the Series B Shares. However, we 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 on each outstanding share of Series B Shares.

Employees.

As of December 31, 2006, we had one employee, our Chief Executive Officer, Judy M. Robinett. As of November 30, 2007, we currently have two (2) employees, Ms. Robinett and Mr. Palmer. Ms. Robinett will resign in the near future, and Mr. Palmer will assume her responsibilities as the Chief Executive Officer. During the initial development of our Jatropa Business, most of our Jatropa-related services are being provided to us by the Mobius Risk Group and the Lodemo Group. In addition, our accounting and other administrative functions are also currently being provided to us by consultants. At such time as capital resources permit, we will hire full-time employees to assume these positions.

The Jatropa Business.

Business Strategy

As of September 7, 2007, the day on which we entered into the Global Agreement, we changed the core business of our company to focus on the cultivation of non-edible feedstock for certain applications in the biofuels market. In particular, we anticipate that our core activities in the future will include the planting, cultivation, harvesting and processing of Jatropa plant feedstock to generate seed oils and biomass for use in the biofuels industry, including the production of bio-diesel and certain other biofuels.

Bio-diesel is a diesel-equivalent, processed fuel derived from biological sources (such as plant oils), which can be used in diesel engines and as a replacement for fuel oil. The term "biofuels" refers to a range of biological based fuels including biodiesel, synthetic diesel, ethanol and biomass, most of which have environmental benefits that are the major driving force for their introduction. Using biofuels instead of fossil fuels reduces net emissions of carbon dioxide and other green house gases, which are associated with global climate change. Biofuels further the concept of energy independence and environmental responsibility, while generating new jobs in new markets. This creates a social, environmental and economic gain from the production, distribution and end use of biofuels. As the world consumes larger volumes of fossil fuels, and further depletes the supplies of such fossil fuels, alternate sources of energy need to be developed to support growing economies

We have identified the *Jatropha curcas* plant as our primary feedstock for producing bio-diesel and other biofuels. The Jatropa plant is a perennial plant that produces an inedible fruit with large seeds containing a high percentage of high quality inedible oil. The entire fruit, including the seeds, has excellent properties necessary for the production of biofuels. Our current business plan proposes to utilize the entire fruit of the Jatropa plant for biofuel production, including the oils produced from the fruit, as well as the hull, seed cover, seed oil and seed cake.

In connection with our new feedstock operations, we have identified strategic locations in North America, the Caribbean, Central America and South America ideally suited to our proposed planting, cultivation, harvesting and processing activities, in which we plan to establish cultivation, harvesting and processing operations. All of the areas identified have been selected for a number of key strategic reasons, including proximity to large ports for logistics purposes, relatively stable democratic governments, favorable trade agreements with the United States, low-cost land, reasonably priced labor, favorable weather conditions and acceptable soil conditions.

The Jatropha plant is indigenous to Mexico, and we have decided to initiate implementation of our new business plan and related agricultural development activities in Mexico. Our business plan proposes to establish a nursery in which we will initially grow and cultivate Jatropha seedlings prior to transferring them to the plantation for further growth and cultivation. We are currently negotiating a lease for approximately 40 hectares of land in the Yucatan Peninsula, on which we plan to set up our proposed Jatropha nursery. We have already begun a plant breeding research and development program on this property.

We have identified a wide range of varieties of the Jatropha plant in Mexico, which we are currently propagating and studying. Our research and development activities will focus on plant and soil sciences, plant breeding and other related activities. We plan to study and identify the proper mix of Jatropha varieties, as well as optimum growth conditions, in order to maximize our output of the Jatropha fruit and seed oil. For political as well as legal reasons, we anticipate organizing a wholly owned Mexican subsidiary for purpose of carrying out our contemplated activities in Mexico, and plan to locate the corporate offices of any such Mexican subsidiary on the same property on which our nursery, plant breeding and research support facilities will be located. We are currently in negotiations for the construction of the nursery and research facilities on an approximately 40-hectare parcel in Mexico.

In addition, we have identified 2,000 hectares of land in the State of Yucatan Mexico, which we believe is ideal for establishing and maintaining what we plan to be the first of several multi-thousand hectare plantations in which we will cultivate the Jatropha plant. Our business plan is to acquire the rights to use up to 20,000 hectares in Mexico, by the end of our 2008 fiscal year, for purposes of setting up plantations on which we will cultivate the Jatropha plant. We anticipate that the 2,000 hectares will yield 1-2 million gallons of feedstock oil when fully planted with mature plants.