

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

**FORM S-1**

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

**BIODRAIN MEDICAL, INC.**

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction  
of incorporation or organization)

3842

(Primary Standard Industrial  
Classification Code Number)

33-1007393

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

**2060 Centre Pointe Boulevard, Suite 7  
Mendota Heights, Minnesota 55120  
(651) 389-4800**

(Address, Including Zip Code and Telephone Number,  
Including Area Code, of Registrant's Principal Executive Offices)

**Kevin R. Davidson  
Chief Executive Officer**

**2060 Centre Pointe Boulevard, Suite 7  
Mendota Heights, Minnesota 55120  
(651) 389-4800**

(Name, Address, Including Zip Code and Telephone Number,  
Including Area Code, of Agent for Service)

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Approximate date of proposed sale to the public: From time to time after the effective date of this Registration Statement.

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

**CALCULATION OF REGISTRATION FEE**

Title of each class of securities to be registered	Amount to be Registered	Proposed maximum offering price per share	Proposed maximum aggregate offering price	Amount of registration fee
Common stock, \$0.01 par value (1)	7,084,124	\$ .35	\$ 2,479,443	\$ 97.44
Common stock underlying warrants to purchase common stock (2)	4,689,290	\$ .46	\$ 2,157,074	\$ 84.77
Common stock underlying convertible debentures (1)	620,096	\$ .35	\$ 217,034	\$ 8.53
Common stock underlying warrants for convertible debentures (3)	620,096	\$ .35	\$ 217,034	\$ 8.53
<b>TOTAL</b>	<b>13,013,606</b>	<b>N/A</b>	<b>\$ 5,070,585</b>	<b>\$ 199.27</b>

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended.

(2) Calculated in accordance with Rule 457 (g) under the Securities Act on the basis of an exercise price of \$.46 per share.

(3) Calculated in accordance with Rule 457 (g) under the Securities Act on the basis of an exercise price of \$.35 per share.

**THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SECTION 8(A), MAY DETERMINE.**

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

**Subject to Completion, dated November 12, 2008**

**PRELIMINARY PROSPECTUS**

**BioDrain Medical, Inc.**

13,013,606 Shares of Common Stock

\$0.01 par value

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This prospectus covers the resale by selling shareholders named on page 51 of up to 13,013,606 shares of common stock which include:

- 7,084,124 shares of common stock;
- 5,309,386 shares of common stock underlying common stock purchase warrants, which includes 620,096 shares of common stock underlying warrants issuable upon conversion of certain notes issued in conjunction with a bridge loan we undertook in July 2007; and
- 620,096 shares of common stock underlying the convertible notes.

There is no current trading market for our securities and this offering is not being underwritten. These securities will be offered for sale by the selling shareholders identified in this prospectus in accordance with the methods and terms described in the section of this prospectus titled "Plan of Distribution." We intend to seek and obtain quotation of our common stock for trading on the OTC Bulletin Board and to thereafter apply for trading on either the NASDAQ market or the NYSE Alternext U.S. LLC (formerly American Stock Exchange) at such time that we meet the requirements for listing on those exchanges. We estimate that the selling shareholders will sell at a price between \$.35 to \$.46 per share until our shares are quoted on the OTC Bulletin Board and thereafter at prevailing market prices or privately negotiated prices.

AN INVESTMENT IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING AT PAGE 3.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

You should rely only on the information contained in this prospectus to make your investment decision. We have not authorized anyone to provide you with different information. This prospectus may be used only where it is legal to sell these securities. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front page of this prospectus.

The following table of contents has been designed to help you find important information contained in this prospectus. We encourage you to read the entire prospectus carefully.

The date of this prospectus is November 12, 2008

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Neither we nor the selling shareholders have authorized anyone to provide you with information different from that contained in this prospectus. These securities may be sold only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the effective date of this offering, regardless of the time of delivery of this prospectus or of any sale of the securities. You must not consider that the delivery of this prospectus or any sale of the securities covered by this prospectus implies that there has been no change in our affairs since the effective date of this offering or that the information contained in this prospectus is current or complete as of any time after the effective date of this offering.

Neither we nor the selling shareholders are making an offer to sell the securities in any jurisdiction where the offer or sale is not permitted. No action is being taken in any jurisdiction outside the United States to permit a public offering of our securities or the possession or distribution of this prospectus in any such jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside of the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable in that jurisdiction.

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## Prospectus Summary

*This summary highlights material information contained elsewhere in this prospectus. It is not complete and does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including the section titled "Risk Factors" and our consolidated financial statements and the related notes. In this prospectus, we refer to BioDrain Medical, Inc. as "BioDrain," "our company," "we," "us" and "our."*

### Our Company

BioDrain is an early-stage company developing a patented and patent-pending medical device designed to provide medical facilities with effective, efficient and affordable means to safely dispose of potentially contaminated fluids generated in the operating room and other similar medical locations in a manner that protects hospital workers from exposure to such fluids, reduces costs to the hospital, and is environmentally conscious.

BioDrain was incorporated in Minnesota on April 23, 2002. We are the registered owner of a pending U.S. patent application for our current fluid management system ("FMS"). We plan to distribute our products to medical facilities where bodily and irrigation fluids produced during surgical procedures must be contained, measured, documented and disposed of with minimal exposure potential to the healthcare workers who handle them. Our goal is to create products that dramatically decrease staff exposure without significant changes to established operative procedures, historically a major stumbling block to innovation and product introduction. In addition to simplifying the handling of these fluids, our technologies will provide cost savings to facilities over the aggregate costs incurred today using their current methods of collection, neutralization and disposal. Initially, our products will be sold through independent distributors and manufacturers representatives in the United States and Europe.

### Risks Related to Our Business

Our business is subject to a number of risks, which you should be aware of before making an investment decision. These risks are discussed more fully in the section of this prospectus titled "Risk Factors."

### The Offering

The shares issued and outstanding prior to this offering consist of 8,163,687 shares of common stock and do not include:

- 5,866,578 shares of common stock issuable upon the exercise of warrants having a range of exercise prices from \$.02 to \$3.34 per share (comprised of 5,309,386 shares of common stock underlying the warrants we are registering pursuant to this registration statement; 157,191 shares of common stock reserved for issuance upon the exercise of outstanding warrants granted to certain investors; and 400,000 shares of common stock reserved for issuance upon the exercise of outstanding warrants granted in connection with an intellectual property purchase agreement and consulting agreements with third parties);
- outstanding options to purchase 891,176 shares of our common stock;
- 975,405 shares of common stock reserved for issuance under our 2008 Equity Incentive Plan;
- 620,096 shares of common stock subject to issuance upon conversion of convertible notes issued in conjunction with a bridge loan we undertook in July 2007; and
- 297,142 shares subject to issuance upon conversion of certain notes.

We are registering 13,013,606 shares for sale by the selling shareholders identified in the section of this prospectus titled "Selling Security Holders." The shares included in the table identifying the selling shareholders consist of:

- 7,084,124 shares of common stock;
- 5,309,386 shares of common stock underlying common stock purchase warrants, which includes 620,096 shares of common stock underlying warrants issuable upon conversion of convertible notes issued in conjunction with a bridge loan we undertook in July 2007; and
- 620,096 shares of common stock underlying the convertible notes.

After this offering, assuming the exercise of all warrants and options with underlying shares which are covered by this prospectus, we would have 15,541,536 shares of common stock outstanding, which does not include the 975,405 shares of common stock reserved for issuance under our 2008 Equity Incentive Plan.

BioDrain Medical, Inc. will not receive any of the proceeds from the sale of these shares. However, we may receive up to \$2,374,107 upon the exercise of warrants. If some or all of the warrants are exercised, the money we receive will be used for general corporate purposes, including working capital requirements. We will pay all expenses incurred in connection with the offering described in this prospectus, with the exception of the brokerage expenses, fees, discounts and commissions which will all be paid by the selling shareholders. Information regarding our common stock, warrants and convertible notes is included in the section of this prospectus entitled "Description of Securities."

### **Corporate Information**

Our corporate offices are located at 2060 Centre Pointe Boulevard, Suite 7, Mendota Heights, Minnesota 55120. Our telephone number is (651) 389-4800 and our website address is [www.biodrainmedical.com](http://www.biodrainmedical.com). Information contained on our website shall not be deemed to be part of this prospectus.

### **Reverse Stock Split**

On June 6, 2008, our board of directors approved a 1-for-1.2545 reverse stock split of our common stock. Since the authorized number of shares of common stock was proportionally reduced on a 1-for-1.2545 basis, no shareholder approval was required.

On October 20, 2008, our board of directors approved a subsequent 1-for-1.33176963 reverse stock split. Unless otherwise indicated, all discussions included in this prospectus relating to the outstanding shares of our common stock, including common stock to be issued upon exercise of outstanding warrants, refer to post-second reverse stock split shares.

## Risk Factors

*You should carefully consider the risks described below before making an investment decision. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained in this prospectus, including our financial statements and related notes.*

### Risks Related to Our Business

#### ***Our limited operating history makes evaluation of our business difficult.***

We were formed on April 23, 2002 and to date have not generated any revenue. Our ability to implement a successful business plan remains unproven and no assurance can be given that we will ever generate sufficient revenues to sustain our business. We have a limited operating history which makes it difficult to evaluate our performance. You must consider our prospects in light of these risks, expenses, technical obstacles, difficulties, market penetration rate and delays frequently encountered in connection with the development of new businesses. These factors include uncertainty whether we will be able to:

- Raise capital;
- Develop and implement our business plan in a timely and effective manner;
- Be successful in uncertain markets;
- Respond effectively to competitive pressures;
- Successfully address intellectual property issues of others;
- Protect and expand our intellectual property rights; and
- Continue to develop and upgrade our products.

***Because we are a development stage company and not profitable and expect to incur additional losses, we will require additional financing to sustain our operations and without it we will not be able to continue operations.***

We incurred a net loss of approximately \$159,900 and \$273,000, respectively for the fiscal years ended December 31, 2007 and 2006 and \$501,700 and \$165,200 for the six months ended June 30, 2008 and 2007, respectively. These amounts include a significant amount of employee accrued payroll and consulting fees from a member of our board of directors. That amount was reduced by approximately \$346,000 at December 31, 2007 and consulting fees were no longer accrued in 2008. We are currently negotiating with the individuals involved to compensate them for the remaining portion of the accrual. However, there is no guarantee that these negotiations will be successful. We have never earned a profit and we anticipate that we will continue to incur losses for at least the next 12 months. We continue to operate on a negative cash flow basis. We have not yet generated revenues and are still developing our planned principal operations. These factors raise substantial doubt about our ability to continue as a going concern. We believe that we will need to raise at least an aggregate of \$3 million from both this offering and future offerings in order to have sufficient financial resources to fund our operations for the next 12 months because we are running a cash flow deficit. We may need additional funds to continue our operations, and such additional funds may not be available when required.

To date, we have financed our operations through the sale of stock and certain borrowings. From 2002 to 2006 we received approximately \$110,000 in debt financing of which approximately \$44,400 remains outstanding as of the date of this prospectus and \$99,400 in equity financing. In March 2007 we secured a \$100,000 convertible note from two private investors. In July and August 2007 we secured a convertible bridge loan of \$170,000. By August 2008, we

closed a private placement financing of our common stock and warrants, through which we raised approximately \$1.569 million to date with net proceeds of approximately \$1.238 million. Approximately \$331,000 will be allocated to outstanding legal fees (\$75,000), finder fees (\$86,000), and investor relations fees (\$170,000 over the next two years).

We expect to continue to depend upon outside financing to sustain our operations for at least the next 12 months. Our ability to arrange financing from third parties will depend upon our perceived performance and market conditions. Our inability to raise additional working capital at all or to raise it in a timely manner would negatively impact our ability to fund our operations, to generate revenues, and to otherwise execute our business plan, leading to the reduction or suspension of our operations and ultimately forcing us to go out of business. Should this occur, the value of any investment in our securities could be adversely affected, and an investor could lose a portion of or even lose their entire investment.

Although we have been able to fund our current working capital requirements, principally through debt and equity financing, there is no assurance that we will be able to do so in the future.

***We are an early-stage company with a limited operating history of no revenues.***

Since our formation in 2002, we have engaged in the formulation of a business strategy and the design and development of technologically advanced products. We have not generated any revenues to date. Our ability to implement a successful business plan remains unproven and no assurance can be given that we will ever generate sufficient revenues to sustain our business.

***Our business is dependent upon proprietary intellectual property rights, which if we were unable to protect, could have a material adverse effect on our business.***

We currently own and may in the future own or license additional patent rights or trade secrets in the U.S., Europe, Asia, Canada and elsewhere in the world that cover certain of our products. We rely on patent laws, and other intellectual property laws, nondisclosure and other contractual provisions and technical measures to protect our products and intangible assets. These intellectual property rights are important to our ongoing operations and no assurance can be given that any measure we implement will be sufficient to protect our intellectual property rights. We may lose the protection afforded by these rights through patent expirations, legal challenges or governmental action. If we cannot protect our rights, we may lose our competitive advantage or our competitive advantage could be lost if these patents were found to be invalid in the jurisdictions in which we sell or plan to sell our products. The loss of our intellectual property rights could have a material adverse effect on our business.

***If we become subject to intellectual property actions, this could hinder our ability to deliver our products and services and our business could be negatively impacted.***

We may be subject to legal or regulatory actions alleging intellectual property infringement or similar claims against us. Companies may apply for or be awarded patents or have other intellectual property rights covering aspects of our technologies or businesses. Moreover, if it is determined that our products infringe on the intellectual property rights of third parties, we may be prevented from marketing our products. While we are currently not subject to any material intellectual property litigation, any future litigation alleging intellectual property infringement by us could be costly, could require us to change our business practices, could potentially hinder or prevent our ability to deliver our products and services, and could result in a negative impact to our business. Expansion of our business via product line enhancements or new product lines to drive increased growth in current or new markets may be inhibited by the intellectual property rights of our competitors and/or suppliers. Our inability to successfully mitigate those factors may significantly reduce our market opportunity and subsequent growth.

***Our business would be materially and adversely affected if we were obligated to pay royalties under a patent purchase agreement.***



Our revenues would be materially adversely affected if our licensed intellectual property were found to infringe the intellectual property rights of others. Two individuals, Jay D. Nord and Jeffrey K. Drogue, filed a provisional patent application disclosing a particular embodiment for a medical waste fluid collection system (the “Nord/Drogue Embodiment”). We engaged the services of Marshall C. Ryan to further develop the medical waste fluid collection system for commercialization. Mr. Ryan conceived of an alternative embodiment for the medical waste fluid collection system (the “Ryan Embodiment”). An international (PCT) patent application was subsequently filed claiming priority to the earlier filed provisional application of Nord and Drogue and disclosing and claiming both the Nord/Drogue Embodiment and the Ryan Embodiment. The European and U.S. patent offices each rejected the patent claims covering the Nord/Drogue Embodiment as being unpatentable over the prior art. The claims were amended in both the U.S. and European applications to claim only the subject matter of the Ryan Embodiment and Mr. Ryan was added as a named inventor. As required under U.S. law, we removed Nord and Drogue as named inventors from the U.S. application because they were no longer inventors to the subject matter of the remaining patent claims. A European patent was subsequently granted to the Ryan patent application. The U.S. patent office has issued a notice of allowance, and the U.S. patent is expected to issue soon.

We entered into a patent purchase agreement in September 2002 with Nord and Drogue prior to Mr. Ryan’s embodiment. Under the patent purchase agreement, certain royalties were to be paid to Nord and Drogue upon issuance of a U.S. patent. However, upon learning that the Nord/Drogue Embodiment was unpatentable, we invalidated the patent purchase agreement we had entered into with Nord and Drogue. Nord and Drogue could pursue legal action against us purportedly for breach of contract and patent infringement and may sue for damages and ownership interest in the patents. Although our management believes that we would prevail in such lawsuit, there is no assurance that we will. The Company maintains that Nord and Drogue have no interest whatsoever and that we will, at the very least, have an undivided joint ownership interest in the patents as a result of the rights granted to us by Mr. Ryan, who is, if not the sole inventor of the subject matter of the claims of the patents, at least a joint inventor. We have entered into an agreement with Mr. Ryan under which the Company will remain the exclusive owner of the patent.

***We face intense competition, including competition from companies with significantly greater resources than ours, and if we are unable to compete effectively with these companies, our market share may decline and our business could be harmed.***

Our industry is highly competitive with numerous competitors from well-established manufacturers to innovative start-ups. A number of our competitors have significantly greater financial, technological, engineering, manufacturing, marketing and distribution resources than we do. Their greater capabilities in these areas may enable them to compete more effectively on the basis of price and production and more quickly develop new products and technologies. The total market for surgical suction canisters has been estimated at approximately \$120,000,000 with a compound annual growth rate of 5% according to a publicly-available research report by Frost & Sullivan. Cardinal Health, Inc., a \$90 billion plus medical manufacturer and distributor, is the leading supplier of surgical canisters, tubing and suction products. Another one of our competitors is Stryker Instruments, a wholly-owned subsidiary of Stryker Corporation, which is a publicly-traded company with revenues of approximately \$5 billion. The BioDrain FMS has distinct advantages over these two and other competitors in that it does not use canisters, and therefore the volume of fluid is not restricted by a canister or other containment mechanism. In addition, the BioDrain FMS is directly connected to the sanitary sewer, thereby greatly reducing handling and potential exposure to infectious fluids. As a result of the BioDrain FMS design, continuous, uninterrupted fluid suction during the operative procedure is possible.

Competition from companies with significantly greater resources than ours may be able to reverse engineer our products and/or circumvent our intellectual property position. Such action, should it prove successful, would greatly reduce our competitive advantage in the marketplace.

We believe that our ability to compete successfully depends on a number of factors, including our innovative and advanced research and development capabilities, strength of our intellectual property rights, sales and distribution channels and advanced manufacturing capabilities. We plan to employ these and other elements as we develop our products and technologies, but there are many other factors beyond our control. We may not be able to compete

successfully in the future, and increased competition may result in price reductions, reduced profit margins, loss of market share and an inability to generate cash flows that are sufficient to maintain or expand our development and marketing of new products, which could adversely impact the trading price of our common shares.

***Our products require FDA approval and our business will be subject to intense governmental regulation and scrutiny, both in the U.S. and abroad.***

We are currently preparing and planning to file a 510(k) submission with the U.S. Food and Drug Administration (the “FDA”) with respect to a product classification as a Class II non-exempt device. Since Class II devices requiring a 510(k) typically undergo a less costly and rigorous approval process than more critical Class III devices, and since we are utilizing consultants and professionals with significant experience in obtaining FDA approval for similar devices, we believe that the likelihood of regulatory approval for our products is very high. However, there is no assurance that we will succeed in obtaining FDA approval.

The potential production and marketing of some of our products and our ongoing research and development, any pre-clinical testing and clinical trial activities are subject to extensive regulation and review by FDA and other governmental authorities both in the United States and abroad. In addition to testing and approval procedures, extensive regulations also govern marketing, manufacturing, distribution, labeling, and record keeping. If we do not comply with applicable regulatory requirements, violations could result in warning letters, non-approvals, suspensions of regulatory approvals, civil penalties and criminal fines, product seizures and recalls, operating restrictions, injunctions, and criminal prosecution.

Delays in or rejection of FDA or other government entity approval of our new products may adversely affect our business or even force us to shut down. Such delays or rejection may be encountered due to, among other reasons, government or regulatory backlog, lack of efficacy during clinical trials, unforeseen safety issues, slower-than-expected rate of hospital recruitment for clinical trials, varying interpretations of data generated by clinical trials, or changes in regulatory policy during the period of product development in the United States and abroad. In the United States, there has been a continuing trend of more stringent FDA oversight in product clearance and enforcement activities, causing medical products manufacturers to experience longer approval cycles, more uncertainty, greater risk, and higher expenses. Even if regulatory approval of a product is granted, this approval may entail limitations on uses for which a previously approved product may be labeled and promoted. It is possible, for example, that we may not receive FDA approval to market already approved products for broader or different applications or to market updated products that represent extensions of our basic technology.

Periodically, legislative or regulatory proposals are introduced that could alter the review and approval process relating to medical products. It is possible that the FDA will issue additional regulations further restricting the sale of our present or proposed products. Any change in legislation or regulations that govern the review and approval process relating to our current and future products could make it more difficult and costly to obtain approval for new products, or to produce, market, and distribute existing products.

***Our product may never be commercially viable or producible to satisfy demand.***

The BioDrain FMS is currently a fourth-generation prototype. We have contracted with a contract manufacturing entity who is working with us to finalize and improve the product design. These improvements are expected to make the product attractive to the target market; however, other unknown or unforeseen market requirements may appear. There is no assurance that such a product can be produced in sufficient volume to satisfy projected sales volumes.

***If our product is not accepted by our potential customers, it is unlikely that we will ever become profitable.***

The medical industry has historically used a variety of technologies for fluid waste management. Compared to these conventional technologies, our technology is relatively new, and the number of companies using our technology is limited. The commercial success of our product will depend upon the widespread adoption of our technology as a

preferred method by hospitals and surgical centers. In order to be successful, our product must meet the technical and cost requirements for these facilities. Market acceptance will depend on many factors, including:

- the willingness and ability of customers to adopt new technologies;
- our ability to convince prospective strategic partners and customers that our technology is an attractive alternative to conventional methods used by the medical industry;
- our ability to select and execute agreements with effective distributors and manufacturers representatives to market and sell our product; and
- our ability to assure customer use of the BioDrain proprietary cleaning fluid.

Because of these and other factors, our product may not gain market acceptance or become the industry standard for the health care industry. The failure of such companies to purchase our products would have a material adverse effect on our business, results of operations and financial condition.

***We are dependent for our success on a few key executive officers. Our inability to retain those officers would impede our business plan and growth strategies, which would have a negative impact on our business and the value of an investment.***

Our success depends on the skills, experience and performance of key members of our management team. We are heavily dependent on the continued services of Lawrence Gadbaw, our Chairman, Kevin Davidson, our Chief Executive Officer, Gerald Rice, our Chief Financial Officer, and Chad Ruwe, our Executive Vice President of Operations. We have entered into employment agreements with all of the members of our senior management team and we plan to expand the relatively small number of executives. Were we to lose one or more of these key executive officers, we would be forced to expend significant time and money in the pursuit of a replacement, which could result in both a delay in the implementation of our business plan and the diversion of limited working capital. We can give you no assurance that we can find satisfactory replacements for these key executive officers at all, or on terms that are not unduly expensive or burdensome to our company. Although we intend to issue stock options or other equity-based compensation to attract and retain employees, such incentives may not be sufficient to attract and retain key personnel.

***We are dependent for our success on our ability to attract and retain technical personnel, sales and marketing personnel and other skilled management.***

Our success depends to a significant degree upon our ability to attract, retain and motivate highly skilled and qualified personnel. Failure to attract and retain necessary technical personnel, sales and marketing personnel and skilled management could adversely affect our business. If we fail to attract, train and retain sufficient numbers of these highly qualified people, our prospects, business, financial condition and results of operations will be materially and adversely affected.

***The relative lack of public company experience of our management team may put us at a competitive disadvantage.***

Our management team has limited public company experience, which could impair our ability to comply with legal and regulatory requirements such as those imposed by the Sarbanes-Oxley Act of 2002. The individuals who now constitute our senior management have had limited responsibility for managing a publicly traded company. Such responsibilities include complying with federal securities laws and making required disclosures on a timely basis. Our senior management may not be able to implement and effect programs and policies in an effective and timely manner that adequately responds to such increased legal, regulatory compliance and reporting requirements. Our failure to do so could lead to the imposition of fines and penalties and result in the deterioration of our business.

***New rules, including those contained in and issued under the Sarbanes-Oxley Act of 2002, may make it difficult for us to retain or attract qualified officers and directors, which could adversely affect the management of our business and our ability to obtain or retain listing of our common stock.***

We may be unable to attract and retain qualified officers, directors and members of board committees required to provide for our effective management as a result of the recent and currently proposed changes in the rules and regulations which govern publicly held companies, including, but not limited to, certifications from executive officers and requirements for financial experts on the board of directors. The perceived increased personal risk associated with these recent changes may deter qualified individuals from accepting these roles. The enactment of the Sarbanes-Oxley Act of 2002 has resulted in the issuance of a series of new rules and regulations and the strengthening of existing rules and regulations by the Securities and Exchange Commission (the "SEC"). Further, certain of these recent and proposed changes heighten the requirements for board or committee membership, particularly with respect to an individual's independence from the Company and level of experience in finance and accounting matters. We may have difficulty attracting and retaining directors with the requisite qualifications. If we are unable to attract and retain qualified officers and directors, the management of our business could be adversely affected.

***Our internal controls over financial reporting may not be effective, and our independent auditors may not be able to certify as to their effectiveness, which could have a significant and adverse effect on our business.***

If we become a publicly traded company as intended, we will be subject to various regulatory requirements, including the Sarbanes-Oxley Act of 2002. We, like all other public companies, would then incur additional expenses and, to a lesser extent, diversion of our management's time, in our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 regarding internal controls over financial reporting.

Since we are a small developing company with a small management team, we have not yet evaluated our internal controls over financial reporting in order to allow management to report on, and our independent auditors to attest to, our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002 and the rules and regulations of the SEC, which we collectively refer to as "Section 404". We will be required to include our Section 404 management's assessment of internal control over financial reporting beginning with our first annual report filed after we become publicly registered, and pursuant to recent SEC rules, we will be required to include our independent auditor's attestation on management's report on internal control over financial reporting beginning with our first annual report for the fiscal year ending on or after December 15, 2009.

We intend to comply with the Section 404 management assessment of internal control over financial reporting beginning with our first annual report filed after we become publicly registered. However, our lack of familiarity with Section 404 may unduly divert management's time and resources in executing the business plan. If, in the future, management identifies one or more material weaknesses, or our external auditors are unable to attest that our management's report is fairly stated or to express an opinion on the effectiveness of our internal controls, this could result in a loss of investor confidence in our financial reports, have an adverse effect on our stock price and/or subject us to sanctions or investigation by regulatory authorities.

#### **Risks Related to Our Securities**

***There is currently no public trading market for our common stock and we cannot assure you that an active public trading market for our common stock will develop or be sustained. Even if a market develops, you may be unable to sell at or near ask prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares.***

There is currently no public trading market for our common stock and no such market may ever develop. While we intend to seek and obtain quotation of our common stock for trading on the OTC Bulletin Board, there is no assurance that our application will be approved. Even if our application for quotation is approved, the number of persons interested in purchasing our common stock at or near ask prices at any given time may be relatively small or nonexistent. This situation may be attributable to a number of factors, including the fact that we are a small company that is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk averse and may be reluctant to follow a relatively unproven company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, assuming that

our common stock is accepted for quotation, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot assure you that an active public trading market for our common stock will develop or be sustained.

***Limitations on director and officer liability and indemnification of our officers and directors by us may discourage shareholders from bringing suit against a director.***

Our articles of incorporation and bylaws provide, with certain exceptions as permitted by governing state law, that a director or officer shall not be personally liable to us or our shareholders for breach of fiduciary duty as a director, except for acts or omissions which involve intentional misconduct, fraud or knowing violation of law, or unlawful payments of dividends. These provisions may discourage shareholders from bringing suit against a director for breach of fiduciary duty and may reduce the likelihood of derivative litigation brought by shareholders on our behalf against a director. In addition, our articles of incorporation and bylaws may provide for mandatory indemnification of directors and officers to the fullest extent permitted by governing state law.

***We do not expect to pay dividends for the foreseeable future, and we may never pay dividends.***

We currently intend to retain any future earnings to support the development and expansion of our business and do not anticipate paying cash dividends in the foreseeable future. Our payment of any future dividends will be at the discretion of our board of directors after taking into account various factors, including but not limited to, our financial condition, operating results, cash needs, growth plans and the terms of any credit agreements that we may be a party to at the time. In addition, our ability to pay dividends on our common stock may be limited by state law. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize their investment.

***If our common stock is accepted for quotation on the OTC Bulletin Board, it may be thinly traded, so you may be unable to sell at or near ask prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares.***

If our common stock is accepted for quotation on the OTC Bulletin Board, it may be thinly traded on the OTC Bulletin Board, meaning there has been a low volume of buyers and sellers of the shares. Through this registration statement, we are essentially going public without the typical initial public offering procedures which usually include a large selling group of broker-dealers who may provide market support after going public. Thus, we will be required to undertake efforts to develop market recognition for us and support for our shares of common stock in the public market. The price and volume for our common stock that will develop cannot be assured. The number of persons interested in purchasing our common stock at or near ask prices at any given time may be relatively small or non-existent. This situation may be attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days, weeks or months when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price.

We cannot give you any assurance that a broader or more active public trading market for our common stock will develop or be sustained, or that current trading levels will be sustained or not diminish. In addition to trading on the OTC Bulletin Board, our intention is to apply for trading on either the NASDAQ market or the NYSE Alternext U.S. LLC (formerly American Stock Exchange) at such time that we meet the requirements for listing on those exchanges. There can be no assurance as to when we will qualify for either of these exchanges or that we will ever qualify for these exchanges. If our common stock is accepted for quotation on the OTC Bulletin Board, while we are trading on the OTC Bulletin Board, the trading volume we develop may be limited by the fact that many major institutional investment funds, including mutual funds,

as well as individual investors follow a policy of not investing in OTC Bulletin Board stocks and certain major brokerage firms restrict their brokers from recommending OTC Bulletin Board stocks because they are considered speculative, volatile and thinly traded.

***The application of the “penny stock” rules to our common stock could limit the trading and liquidity of the common stock, adversely affect the market price of our common stock and increase your transaction costs to sell those shares.***

If our common stock is accepted for quotation on the OTC Bulletin Board, as long as the trading price of our common stock is below \$5 per share, the open-market trading of our common stock will be subject to the “penny stock” rules, unless we otherwise qualify for an exemption from the “penny stock” definition. The “penny stock” rules impose additional sales practice requirements on certain broker-dealers who sell securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 together with their spouse). These regulations, if they apply, require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the associated risks. Under these regulations, certain brokers who recommend such securities to persons other than established customers or certain accredited investors must make a special written suitability determination regarding such a purchaser and receive such purchaser’s written agreement to a transaction prior to sale. These regulations may have the effect of limiting the trading activity of our common stock, reducing the liquidity of an investment in our common stock and increasing the transaction costs for sales and purchases of our common stock as compared to other securities.

***The OTC Bulletin Board is a quotation system, not an issuer listing service, market or exchange. Therefore, buying and selling stock on the OTC Bulletin Board is not as efficient as buying and selling stock through an exchange.***

The OTC Bulletin Board is a regulated quotation service that displays real-time quotes, last sale prices and volume limitations in over-the-counter securities. Because trades and quotations on the OTC Bulletin Board involve a manual process, the market information for such securities cannot be guaranteed. In addition, quote information, or even firm quotes, may not be available. The manual execution process may delay order processing and intervening price fluctuations may result in the failure of a limit order to execute or the execution of a market order at a significantly different price. Execution of trades, execution reporting and the delivery of legal trade confirmation may be delayed significantly. Consequently, one may not be able to sell shares of our common stock at the optimum trading prices.

When fewer shares of a security are being traded on the OTC Bulletin Board, volatility of prices may increase and price movement may outpace the ability to deliver accurate quote information. Lower trading volumes in a security may result in a lower likelihood of an individual’s orders being executed, and current prices may differ significantly from the price one was quoted by the OTC Bulletin Board at the time of the order entry.

Orders for OTC Bulletin Board securities may be canceled or edited like orders for other securities. All requests to change or cancel an order must be submitted to, received and processed by the OTC Bulletin Board. Due to the manual order processing involved in handling OTC Bulletin Board trades, order processing and reporting may be delayed, and an individual may not be able to cancel or edit his order. Consequently, one may not be able to sell shares of common stock at the optimum trading prices.

The dealer’s spread (the difference between the bid and ask prices) may be large and may result in substantial losses to the seller of securities on the OTC Bulletin Board if the common stock or other security must be sold immediately. Further, purchasers of securities may incur an immediate “paper” loss due to the price spread. Moreover, dealers trading on the OTC Bulletin Board may not have a bid price for securities bought and sold through the OTC Bulletin Board. Due to the foregoing, demand for securities that are traded through the OTC Bulletin Board may be decreased or eliminated.

***Shares eligible for future sale may adversely affect the market.***

From time to time, certain of our shareholders may be eligible to sell all or some of their shares of common stock pursuant to Rule 144, promulgated under the Securities Act of 1933, as amended, subject to certain limitations. In general, pursuant to Rule 144 as in effect as of the date of this prospectus, a shareholder (or shareholders whose shares are aggregated) who has satisfied the applicable holding period and is not deemed to have been one of our affiliates at the time of sale, or at any time during the three months preceding a sale, may sell their shares of common stock. Any substantial sale, or cumulative sales, of our common stock pursuant to Rule 144 or pursuant to any resale prospectus may have a material adverse effect on the market price of our securities.

***We expect volatility in the price of our common stock, which may subject us to securities litigation.***

If established, the market for our common stock may be characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will be more volatile than a seasoned issuer for the indefinite future. In the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and liabilities and could divert management's attention and resources.

### Special Note Regarding Forward-Looking Statements

This prospectus, including the sections titled “Prospectus Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Description of Business,” contains forward-looking statements.

Forward-looking statements include, but are not limited to, statements about:

- our ability to raise capital when we need it;
- our ability to market and distribute or sell our product and associated cleaning fluid; and
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others.

These statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include those listed under “Risk Factors” and elsewhere in this prospectus. In some cases, you can identify forward-looking statements by terminology such as “may,” “could” “expects,” “intends,” “plans,” “anticipates,” “believes,” “potential,” “continue” or the negative of these terms or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We do not intend to update any of the forward-looking statements after the date of this prospectus or to conform these statements to actual results. Neither the Private Securities Litigation Reform Act of 1995 nor Section 27A of the Securities Act of 1933, as amended, provides any protection for statements made in this prospectus.



## Use of Proceeds

We will not receive any proceeds from the sale of the shares by the selling shareholders. All proceeds from the sale of the shares offered hereby will be for the account of the selling shareholders, as described below in the sections entitled "Selling Security Holders" and "Plan of Distribution." However, we may receive up to \$2,374,107 upon exercise of warrants, the underlying shares of which are included in the registration statement of which this prospectus is a part. If received, such funds will be used for general corporate purposes, including working capital requirements. With the exception of any brokerage fees and commissions which are the obligation of the selling shareholders, we are responsible for the fees, costs and expenses of this offering which are estimated to be approximately \$225,000, inclusive of our legal and accounting fees, printing costs and filing and other miscellaneous fees and expenses.

### **Determination of Offering Price**

There has been no public market for our common stock prior to this offering and there will be no public market until our common stock is approved for quotation on the OTC Bulletin Board. The offering price has been arbitrarily determined and does not bear any relationship to our assets, results of operations, or book value, or to any other generally accepted criteria of valuation.

We cannot assure you that an active or orderly trading market will develop for our common stock or that our common stock will trade in the public markets subsequent to this offering at or above the offering price.

At this time, our common shares are not traded on any public markets. We currently have 8,163,687 shares of common stock issued and outstanding. We have 88 shareholders of record of our common stock.

We also have outstanding warrants to purchase 5,866,578 shares of our common stock, which include (i) 5,309,386 shares of common stock underlying the warrants we are registering pursuant to this registration statement; (ii) 157,191 shares of common stock reserved for issuance upon the exercise of outstanding warrants granted to certain investors; and (iii) 400,000 shares of common stock reserved for issuance upon the exercise of outstanding warrants granted in connection with an intellectual property purchase agreement and consulting agreements with third parties. We also have outstanding options to purchase 891,176 shares of our common stock, which include 300,000 shares of common stock reserved for issuance upon the exercise of outstanding options granted pursuant to employment agreements with an officer and an employee of the Company.

After this offering, assuming exercise of all the warrants, we will have 15,541,536 shares of common stock outstanding, which does not include 975,405 shares of common stock reserved for issuance under our 2008 Equity Incentive Plan and 297,142 shares underlying certain convertible notes, but which does include outstanding notes that may be converted into 620,096 shares of our common stock which were issued in conjunction with a bridge loan we undertook in July 2007. Of the amount outstanding, 950,995 shares could be sold pursuant to Rule 144 under the Securities Act of 1933, as amended (assuming compliance with the requirements of Rule 144).

### **Dividends**

We have never paid dividends and do not currently intend to pay any dividends on our common stock in the foreseeable future. Instead, we anticipate that any future earnings will be retained for the development of our business. Any future determination relating to dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including, but not limited to, our financial condition, operating results, cash needs, growth plans, the terms of any credit agreements that we may be a party to at the time and the Minnesota Business Corporations Act, which provides that dividends are only payable out of surplus or current net profits.

### **Securities Authorized for Issuance under Equity Compensation Plans**

In November 2008, our board of directors will approve the BioDrain Medical, Inc. 2008 Equity Incentive Plan (the "Plan") to promote the success of the Company by providing incentives to our directors, officers, employees and contractors by linking their personal interests to the long-term financial success of the Company, and to promote growth in shareholder value. The Plan is subject to the approval of our shareholders, and if it is not so approved on or before 12 months after the date of adoption of the Plan by our board of directors, it shall not come into effect and any options granted pursuant to the Plan will be deemed cancelled. Awards may be granted only to a person who on the date of the grant is a director, officer, employee or contractor of the Company (or a parent or subsidiary of the Company), subject to certain restrictions set forth in the Plan. Awards granted under the Plan shall be evidenced by an award agreement and shall consist of:

- (i) incentive stock options, as defined in Section 422 of the Internal Revenue Code of 1986 (the "Code");
- (ii) nonqualified stock options, defined as any option granted under the Plan other than an incentive stock option;
- (iii) stock appreciation rights ("SARs"), defined as an award granted under the Plan that is exercisable either in lieu of options, in addition to options, independent of options or in any combination thereof, which, upon exercise, entitles the holder to receive payment of an amount determined by multiplying (a) the difference between the fair market value of a share on the date of exercise and the exercise price established by the administrator of the Plan on the date of grant by (b) the number of shares with respect to which the SAR is exercised, the payment of which will be made in cash or stock; or
- (iv) restricted stock, defined as stock granted under the Plan that is subject to restrictions on sale, transfer, pledge, or assignment.

The Plan is administered by a committee whose members are appointed by our board of directors (the Plan is administered by our board of directors during such times as no committee is appointed or during such times as the board of directors is acting in lieu of the committee). At any time that our securities are listed on a national securities exchange or quoted on Nasdaq National Market System ("Nasdaq NMS"), the committee shall consist of not less than three independent directors, as determined by applicable securities and tax laws. The committee has the authority to (i) construe and interpret the Plan; (ii) to establish, amend or waive rules for its administration; (iii) to accelerate the vesting of any options or SARs; (iv) to amend the terms and conditions of any outstanding option, SAR or restricted stock award (provided that the committee shall not replace or regrant options or SARs with an exercise price that is less than the original exercise price or change the exercise price to a lower price than the original exercise price without prior shareholder approval); (v) to choose grantees of Plan awards; (vi) to impose conditions on the exercisability terms of the awards granted under the Plan; (vii) to determine the number of shares subject to options granted; and (viii) to make all other determinations necessary or advisable for the administration of the Plan.

Subject to adjustment, the aggregate number of shares that may be delivered under the Plan will not exceed 975,405 shares. No options or stock awards have been issued under the Plan to date. If any award granted under the Plan terminates, expires or lapses, any stock subject to such award shall be available for future grant under the Plan, provided, however, that if any outstanding shares are changed into or exchanged for a different number or kind of shares or other security in another company by reason of reorganization, merger, consolidation, recapitalization, stock split, reverse stock split, combination of shares or stock dividends, an appropriate adjustment will be made in the number and kind of shares as to which awards may be granted and as to which outstanding options and SARs then unexercised shall be exercisable, such that the proportionate interest of the grantee will be maintained. Such adjustment will be made without change in the total price applicable to the unexercised portion of such awards and with a corresponding adjustment in the exercise price per share.

In the event of a change of control of the Company (as defined in the Plan), any award granted under the Plan, to the extent not already terminated, shall become vested and immediately exercisable, and any period of restriction on restricted stock shall terminate, provided, however, that the period during which any option or SAR is exercisable shall not be limited or shortened. If an option or SAR provides for exercisability during a period of time after a triggering event and the initial exercisability is accelerated by means of a change in control, the expiration of the option or SAR shall be delayed until after the period provided for has ended and the option or SAR shall remain exercisable for the balance of the period initially contemplated by the grant. In addition, if the Company is then subject to the provisions of Section 280G of the Code and if the acceleration or vesting or payment pursuant to a change in control could be deemed a parachute payment, as defined in the Code, then the payments to the grantee shall be reduced to an amount as will result in no portion of such payments being subject to the excise tax imposed by Section 4999 of the Code.

Fair market value, for the purposes of the Plan, means the price per share of the Company's common stock determined as follows: (i) if the security is listed on one or more national securities exchanges or quoted on the Nasdaq NMS, the reported last sales price on such exchange on the date in question (or if not traded on such date, the reported last sales price on the first day prior thereto on which the security was traded); or (ii) if the security is not listed on a national securities exchange and not quoted on Nasdaq NMS but is quoted on the Nasdaq Small Cap System or otherwise traded in the over-the-counter market, the mean of the highest and lowest bid prices for such security on the date in question (or if there are no such bid prices on such date, the mean of the highest and lowest bid prices on the most recent day prior thereto on which such prices existed, not to exceed 10 days prior to the date in question); or (iii) if neither (i) or (ii) is applicable, by any means determined fair and reasonable by the committee.

### **Options**

Only employees are eligible to receive incentive stock options. Directors and consultants who are not also employees are not eligible to receive incentive stock options and instead are entitled to receive nonqualified stock options. Subject to this restriction and other terms and conditions of the Plan, options may be granted by the committee with such number of underlying shares, such vesting terms and such exercise times and prices with such restrictions as the committee shall determine. The aggregate fair market value (determined at the time the option is granted) of the stock with respect to which incentive stock options are exercisable for the first time by a grantee during any calendar year shall not exceed \$100,000. To the extent that the aggregate fair market value of the stock with respect to which

such incentive stock options are exercisable for the first time exceeds \$100,000, the excess options will be treated as nonqualified stock options.

If a vesting schedule is not specified by the committee at the time an option is granted, such option shall vest, with respect to 25% of the options on the first anniversary date of the grant, and, with respect to 2.083% of the options, beginning on 30 days immediately following the first anniversary of the date of grant and continuing on the same day of each month for the next 35 months thereafter (in each case, rounding up to the nearest whole share). The price at which an option may be exercised shall be determined by the committee but may not be less than the fair market value of the stock on the date the option is granted, provided, however, that the exercise price of an incentive stock option granted to an employee who, on the date of execution of the option agreement owns more than 10% of the total combined voting power of all series of stock then outstanding (“10% Shareholder”), shall be at least 110% of the fair market value of a share on the date the option agreement is signed. No option may be exercised after 10 years from the date on which the option was granted (or on the date preceding the 10<sup>th</sup> anniversary in the case of an incentive stock option) and unless specified by the committee at the time of grant, each option shall expire at the close of business on the 10<sup>th</sup> anniversary of the date of grant, provided, however, that in the case of an incentive stock option held by a 10% Shareholder, such option shall expire at the close of business on the date preceding the 5<sup>th</sup> anniversary of the date of grant.

An option may be exercised at such times and with such rights as provided in the applicable option agreement. An option shall be deemed exercised immediately prior to the close of business on the date the Company is in receipt of the original option agreement, written notice of intent to exercise the option, and payment for the number of shares being acquired upon exercise. There shall be no exercise at any one time for fewer than 100 shares or all of the remaining shares then purchasable by the person exercising the option.

In the case of death or disability of a director, officer, employee or contractor, any of such individual’s outstanding options, which were not vested and exercisable on the date of death or the date the committee determines that the individual incurred a disability, shall immediately become 100% vested, and all outstanding options shall be exercisable at any time prior to the sooner of the expiration date of the options or 12 months following the date of death or disability. In the case of termination for “cause” (defined as (i) willful breach of any agreement entered into with the Company; (ii) misappropriation of the Company’s property, fraud, embezzlement, breach of fiduciary duty, or other acts of dishonesty against the Company; or (iii) conviction of any felony or crime involving moral turpitude), all of the grantee’s outstanding options, whether or not then vested, shall be immediately forfeited back to the Company. In the case of termination for any reason other than death, disability or cause, (i) with respect to outstanding nonqualified options which were then vested and exercisable, such options shall be exercisable at any time prior to the sooner of the expiration date of such options or 12 months following the date of termination and (ii) with respect to outstanding incentive stock options which were then vested and exercisable shall be exercisable at any time prior to the sooner of the expiration date of such options or 3 months following the date of termination, provided, however, that in the event of the individual’s death during such 3-month period and prior to the expiration date of the options, such options then vested and unexercised may be exercised within 12 months following the date of termination by the individual’s beneficiary or in accordance with the laws of descent and distribution. Any options not then vested and exercisable shall be forfeited back to the Company.

Incentive stock options are transferable only by will or pursuant to the laws of descent and distribution. Nonqualified stock options are transferable to a grantee’s family member or family trust by a bona fide gift or pursuant to a domestic relations order, by will or pursuant to the laws of descent and distribution, or as otherwise permitted pursuant to the rules and regulations of the SEC. No other transfers, assignments, pledges, or dispositions of any options, or the rights or privileges conferred thereby, are permitted by the Plan and options are only exercisable, during the grantee’s lifetime, by the grantee or his guardian or legal representative.

#### ***Stock Appreciation Rights***

The committee shall have the sole discretion, subject to the requirements of the Plan, to determine the actual number of shares subject to SARs granted, to specify the period of time over which vesting shall occur and to provide for the acceleration of vesting upon the attainment of certain goals, provided, however that the exercise of a SAR shall

not be less than the fair market value of a share of the Company's stock on the date of grant. Unless specified by the committee at the time the SAR is granted, SARs shall have the same vesting schedule as options. The term of a SAR granted under the Plan shall be determined by the committee, but shall not exceed 10 years and if not specified by the committee at the time of grant, each SAR shall expire at the close of business on the date preceding the 10<sup>th</sup> anniversary of the date of grant.

SARs granted in lieu of options may be exercised for all or part of the shares subject to the related option upon the surrender of the related options representing the right to purchase an equivalent number of shares. The SAR may be exercised only with respect to the shares for which its related option is then exercisable. SARs granted in addition to options shall be deemed to be exercised upon the exercise of the related options. SARs granted independently of options may be exercised upon whatever terms and conditions the committee imposes.

SARs have the same termination consequences as nonqualified stock options, no SAR granted under the Plan may be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, and all SARs granted shall be exercisable during a grantee's lifetime only by such grantee.

### ***Restricted Stock***

The committee may grant shares of restricted stock under the Plan to such grantees, in such amounts, with such purchase price and under such other conditions or restrictions as the committee may determine. Each restricted stock grant shall be evidenced by a restricted stock agreement that must specify the period of time over which the shares of restricted stock shall vest (the period of restriction) and the number of shares of restricted stock granted. The committee may also provide for the acceleration of the lapse of a period of restriction upon the attainment of certain goals. Restricted stock shall at all times be valued at its fair market value without regard to restrictions. If not specified by the committee, the period of restriction shall elapse in accordance with the same vesting schedule as options and SARs.

The committee may legend the restricted stock certificates with such restrictions as it determines, provided that each certificate must bear a legend stating that the sale or other transfer of the shares of restricted stock is subject to the BioDrain Medical, Inc. 2008 Equity Incentive Plan and the related restricted stock agreement. Shares of restricted stock shall become freely transferable by the grantee after the last day of the period of restriction and once released from restrictions, the grantee shall be entitled to have the legend removed. Under no other conditions may the restricted stock granted be sold, transferred, pledged, assigned or otherwise alienated or hypothecated until the termination of the period of restriction.

During the period of restriction, grantees holding shares of restricted stock may exercise full voting rights with respect to those shares and shall be entitled to receive all dividends and distributions paid with respect to those shares. In the case of termination of a grantee due to death or disability during a period of restriction, any remaining period of the period of restriction applicable to the restricted stock shall automatically terminate and unless the committee imposed additional restrictions on the shares, the shares shall thereafter be free of restrictions and be fully transferable. In the case of termination of a grantee other than by death or disability during a period of restriction, all shares of restricted stock still subject to restrictions as of the date of the termination shall automatically be forfeited and returned to the Company and any amounts paid by the grantee to the Company for the purchase of such shares shall be returned to the grantee, subject to any modifications or waivers as the committee deems appropriate.

### **Other Securities For Issuance Upon Certain Contingencies**

On June 16, 2008, we entered into an employment agreement pursuant to which we granted options to purchase up to 200,000 shares of our common stock contingent upon reaching certain performance goals, the timing of which was not set. The Company believes that these performance goals will be met, with respect to 100,000, in the fourth quarter of 2008 and, with respect to the other 100,000, in the first or second quarters of 2009.

On October 20, 2008, we entered into an agreement with a regulatory consultant, pursuant to which we granted warrants to purchase up to 50,000 shares of our common stock contingent upon reaching certain performance goals from April 1, 2009 to June 30, 2009.

The Company has also agreed to issue warrants to purchase 75,000 shares of our common stock to each of two human resource consulting firms as partial payment for their search for candidates to fill the position of Vice President of Sales and Marketing for our Company.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes to those statements included elsewhere in this prospectus. In addition to the historical consolidated financial information, the following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" and elsewhere in this prospectus.*

### Overview

Our Company was incorporated in Minnesota in April 2002. We are an early-stage development company developing an environmentally conscious system for the collection and disposal of infectious fluids that result from surgical procedures and post-operative care. We have had no sales to date. Since our inception in 2002, we have invested significant resources into research and development and in preparing for approval from the Underwriters Laboratories (the "UL") and the FDA. We believe that our success depends upon converting the traditional process of collecting and disposing of infectious fluids from the operating rooms of medical facilities to our wall-hung Fluid Management System ("FMS") and use of our proprietary cleaning fluid.

Since inception, we have been unprofitable. We incurred net losses of approximately \$159,900 for the fiscal year ended 2007 and \$273,000 for the fiscal year ended 2006. As of June 30, 2008, we had an accumulated deficit of \$1,290,400. As a company in the early stage of development, our limited history of operations makes prediction of future operating results difficult. We believe that period to period comparisons of our operating results should not be relied on as predictive of our future results.

We are an early-stage development stage company focused on finalizing our production and obtaining final FDA approval to sell our product to the medical facilities market. Our innovative FMS in the operating room will be sold through experienced, independent medical distributors and manufacturers representatives that will enhance acceptability in the marketplace.

Our capital requirements for the next 12 months are expected to be rather moderate, since we plan to use outside third party contract manufacturers to produce the FMS and outside distributors to inventory and sell the FMS. Our future cash requirements and the adequacy of available funds will depend on our ability to complete our regulatory work (i.e. FDA approvals) in a timely manner so that we can generate cash flow to be self-sufficient. We do expect that we will require additional funding to enter the international marketplace.

As of June 30, 2008, we have funded our operations through a bank loan of \$48,400, an equity investment of \$68,000 from the Wisconsin Rural Enterprise Fund ("WREF") and \$30,000 in early equity investment from several individuals. WREF had also previously held debt in the form of three loans of \$18,000, \$12,500 and \$25,000. In December 2006, WREF converted two of the loans totaling \$37,500 into 43,000 shares of common stock that were issued in December 2006. In August 2006, we secured a \$10,000 convertible loan from one of our vendors. In February 2007, we raised \$4,000 in officer and director loans and in March 2007, we secured a \$100,000 convertible note from two private investors. In July and August 2007, we secured a convertible bridge loan of \$170,000. In June 2008, we paid off the remaining \$18,000 loan from WREF and have raised a net of \$1,238,000 to date through our August 2008 financing.

### Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our audited and unaudited financial statements. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses for each period. As we are an early-stage development company, we have generated no revenues to date.



## Results of Operations

### *Six Months Ended June 30, 2008 and 2007*

*Revenue.* None.

*General and Administrative.* General and administrative expense consists of, management salaries, professional fees, consulting fees, travel expense, administrative fees and general office expenses.

General and administrative expense increased from \$153,900 for the six months ended June 30, 2007 to \$403,300 for the six months ended June 30, 2008. General and administrative expense increased primarily due to an increase in product development of \$91,400, an increase in legal fees of \$78,500 and an increase in salaries of \$68,100, and a decrease in consulting fees of \$17,700. We anticipate that general and administrative expense will increase in absolute dollars as we incur increased costs associated with a growing company, of adding personnel and proceeding from the development phase to the operating phase, and operating as a public company.

*Research and Development.* Research and development expense consists primarily of costs relating to the development of the FMS.

Research and development costs increased from \$400 for the six months ended June 30, 2007 to \$91,400 for the six months ended June 30, 2008. The increase was a result of an accumulation of unbilled work from 2003 through 2007. We expect our development expense to increase a moderate amount in future periods as we finalize our product for market

*Interest expense.* Interest expense decreased from \$10,900 for the six months ended June 30, 2007 to \$7,000 for the six months ended June 30, 2008.

### *Years Ended December 31, 2007 and 2006*

*Revenue.* None

*General and Administrative.* General and administrative expense consists of, management salaries, professional fees, consulting fees, travel expense, administrative fees and general office expenses.

General and administrative expense decreased from \$191,700 in 2006 to \$125,300 in 2007. General and administrative expense decreased primarily due to an elimination of accrued payroll expenses of \$336,600. Actual salaries in 2007 were \$170,200 greater than in 2006 due to the addition of an executive member in October 2006. Professional fees were up by \$68,700 from the legal and accounting fees incurred in preparing our 2008 Private Placement Memorandum and there was an increase of \$38,000 in consulting fees for human resources work.

*Research and Development.* Research and development costs decreased by \$99,000 due to an accrual in 2006 of \$100,000 in unbilled product development by our product development vendor for all unbilled development fees since inception. The vendor subsequently billed us \$100,000 for such fees in 2008.

*Interest expense.* Interest expense increased from \$6,100 in 2006 to \$33,200 in 2007 due to the increase in borrowing of \$260,300.

## Liquidity and Capital Resources

As of June 30, 2008, we had a cash balance of \$349,300. Since our inception, we have incurred significant losses and as of June 30, 2008 we had an accumulated deficit of \$1,290,400. We have not achieved profitability and anticipate that we will continue to incur net losses for the foreseeable future. We expect that our research and development and general and administrative expenses will increase, and as a result we will need to generate significant revenue to achieve profitability.

To date, our operations have been funded through a bank loan in the amount of \$44,400, seed loans totaling \$10,000 and equity investments totaling \$923,900. As of June 30, 2008, we had accounts payable of \$250,800 and accrued liabilities of \$289,900, approximately \$185,900 of which are for accrued payroll from November 2007 to present.

#### ***Six Months Ended June 30, 2008 and 2007***

Net cash used by operating activities was \$452,300 for the six months ended June 30, 2008 as compared with net cash used of \$89,200 for the six months ended June 30, 2007. The increase was due primarily to a greater net loss of \$336,500. Net cash provided by financing activities was \$802,600 for the six months ended June 30, 2008 and \$105,100 for the six months ended June 30, 2007. The difference was due to the receipt of investment capital from the August 2008 funding.

#### ***Years Ended December 31, 2007 and 2006***

Net cash used by operating activities was \$224,100 for 2007 as compared with net cash used of \$14,200 for 2006. The increase was due primarily to a net loss decrease of \$113,000 and an increase in accounts payable of \$80,300 in 2007, offset by a decrease in accrued expenses, primarily accrued payroll, of \$385,200 and a debt write off of \$11,000.

Cash flows used in investing activities was \$46,100 for 2007 as compared to cash used in investing activities of \$29,700 for 2006. Both amounts represented investments in intellectual property.

Net cash provided by financing activities was \$273,400 for 2007 as compared to net cash used by financing activities of \$19,200 for 2006. The increase was primarily due to an increase to proceeds on long-term debt of \$264,000 from two loans of \$100,000 and \$170,000, respectively.

Based on our current operating plan we believe that we have sufficient cash, cash equivalents and short-term investment balances to last approximately through the end of the first and second quarters of 2009, during which time a secondary financing is anticipated.

Our operating plan assumes that it will achieve certain levels of operating costs and expenses, as to which there can be no assurance that we will be able to achieve. This plan is completely dependent on our ability to raise additional capital through future financings. In addition, if events or circumstances occur such that we are unable to meet our operating plan as expected, we will be required to seek additional capital, pursue other strategic opportunities, or we will be forced to reduce the level of expenditures, which could have a material adverse effect on our ability to achieve our intended business objectives and to continue as a going concern. Even if we achieve our operating plan, we will be required to seek additional financing or strategic investments. There can be no assurance that any additional financing will be available on acceptable terms, if at all. Furthermore, any equity financing may result in dilution to existing shareholders and any debt financing may include restrictive covenants.

#### **Commitments and Contingencies**

Effective June 30, 2008, we had notes payable to several individuals and entities, including a bank loan of \$44,400; \$10,000 due to one of our vendors in connection with a convertible loan; \$4,000 of officer and director loans; \$100,000 due to two private investors in connection with a convertible note; and \$170,000 of a bridge loan.

Our contractual obligations consisted of the following at June 30, 2008.

Payment Due by Period as of June 30

	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long Term Debt	\$ 132,600	\$ 11,800	\$ 32,600	\$ 100,000	—
Operating Leases	—	—	—	—	—
Capital Leases	—	—	—	—	—
Total Contractual Cash Obligations	\$ 132,600	\$ 11,800	\$ 32,600	\$ 100,000	—

A break down of total long term debt as of June 30 is as follows:

	June 30,	
	2008	2007
Notes payable to several individuals due April 2008 including 8% fixed interest and is now overdue. The notes are convertible into 620,096 shares of the Company's common stock.	\$ 170,000	\$ —
Note payable to bank in monthly installments of \$1,275/including variable interest at 2% above the prevailing prime rate (7.00% at June 30, 2008) to August 2011 when the remaining balance is payable. The note is personally guaranteed by executives of the Company.	44,417	49,901
Note payable to Development Corporation in interest only payments at 8% to December 2008 when the remaining balance is payable. The note is personally guaranteed by executives of the Company.	—	18,000
Notes payable to two individuals in interest only payments at 12% to March 2012 when the remaining balance is payable. The notes are convertible into shares of stock in the Company at a price equal to the next completed funding transaction by the Company.	100,000	100,000
Notes payable to four shareholders of the Company that are overdue. The notes are convertible into shares of stock in the Company at \$1.00 per share.	4,000	4,000
Total	318,417	171,901
Less amount due within one year	185,800	29,900
Long-Term Debt	\$ 132,617	\$ 142,001

Cash payments for interest were \$2,950 on June 30, 2008 and \$8,069 in 2007. Principal payments required during the next five years are: 2009 - \$185,800; 2010 - \$12,000; 2011 - \$13,300; 2012 - \$7,300; and 2013 - \$100,000.

**Amortization of Intangible Assets**

Intangible assets consist of patent costs. These assets are not subject to amortization until the property patented is in production. The assets are reviewed for impairment annually, and impairment losses, if any, are charged to operations when identified. No impairment losses have been identified by management to date.

## Income Tax Expense

Deferred income taxes are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The major temporary differences are net operating losses. Due to historical losses on the accrual basis, the related tax assets are not recorded in our financial statements.

## Stock Options and Warrants

Our proposed 2008 Equity Incentive Plan would allow issuance of both incentive and non-qualified stock options to our employees, directors and consultants, subject to the restrictions provided for in the plan. The exercise price for each stock option is determined by our board of directors, or a committee designated by our board of directors, as are the vesting requirements, which currently range from immediate to three years. Options granted under our stock option plan have terms varying from three to seven years.

We were required to adopt the provisions of FASB Statement No. 123R, *Share-Based Payment* (SFAS 123R) effective January 1, 2006. As permitted by SFAS 123R, we account for stock option awards using the calculated value method. We opted for early adoption of the provisions of SFAS 123R. The provisions of SFAS 123R are applicable to stock options awarded by us beginning in 2005 and we are required to recognize compensation expense for options granted in 2005 and thereafter.

We have elected to use the Black-Scholes-Merton option pricing model. The fair value of these options was calculated using a risk-free interest rate of 3.49% to 5.07%, an expected life of 5 years and an expected volatility and dividend rate of 0%. Compensation recognized in our financial statements was \$10,962 and \$13,644 for the years ended 2007 and 2006, respectively, and \$117,365 and \$7,053 for June 30, 2008 and 2007, respectively.

A summary of transactions for stock options and warrants for the years ended December 31, 2007 and 2006 and for the six months ended June 30, 2008 is presented below:

	Stock Options (1)		Warrants (1)	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding at December 31, 2005	17,956	\$ 1.67	20,949	\$ 2.62
Issued	23,942	1.67	71,826	0.85
Outstanding at December 31, 2006	41,898	\$ 1.67	92,775	\$ 1.25
Issued	—	—	28,503	0.58
Outstanding at December 31, 2007	41,898	\$ 1.67	121,278	\$ 1.09
Issued	5,985	0.58	2,588,056	0.46
Outstanding at June 30, 2008	47,883	\$ 1.53	2,709,334	0.49

(1) Adjusted for the reverse stock split in total at June 30, 2008.

At December 31, 2007, 23,941 stock options were fully vested and exercisable and 121,278 warrants were fully vested and exercisable. At June 30, 2008, 29,926 stock options were fully vested and exercisable and 2,709,334 warrants were fully vested and exercisable.

A summary of the status of options and warrants outstanding at December 31, 2007 and June 30, 2008 is presented below:

Range of Exercise Prices	Shares	Weighted Average Remaining Life
<b>At December 31, 2007:</b>		
Options:		
\$1.00	70,000	3.31
\$.35	10,000	4.37
Warrants:		
\$0.01	60,000	5.45
\$0.35	47,620	4.17
\$1.00	75,000	3.69
\$2.00	20,000	0.79
<b>At June 30, 2008:</b>		
Options:		
\$1.67	41,898	3.44
\$0.58	5,985	4.37
Warrants:		
\$0.02	71,826	5.95
\$0.58	28,502	3.67
\$0.46	2,552,143	2.95
\$1.67	44,892	3.19
\$3.34	11,971	0.30

Stock options and warrants expire on various dates from October 2008 to December 2013. In October 2007, the exercise price on the \$2.00 warrants changed to \$3.34 in accordance with a common stock warrant purchase agreement.

On June 6, 2008, our board of directors approved a reverse stock split. The authorized number of common stock of 20,000,000 was proportionately divided by 1.2545 to 15,942,607.

On October 20, 2008, our board of directors approved a second reverse stock split. The authorized number of common stock of 15,942,607 was proportionately divided by 1.33177 to 11,970,994.

On October 20, 2008, our board of directors also approved a resolution to increase the number of authorized shares of our common stock from 11,970,994 to 40,000,000. The board of directors plans to schedule a shareholders' meeting at which the shareholders of the Company will vote to approve the recommended increase in authorized shares.

## Litigation

From time to time, we may become subject to legal proceedings, claims and litigation arising in the ordinary course of business. We are not currently a party to any material legal proceedings, nor are we aware of any other pending or threatened litigation that would have a material adverse effect on our business, operating results or financial condition should such litigation be resolved unfavorably.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet transactions.

**Dividend Policy**

We follow a policy of retaining earnings, if any, to finance the expansion of our business. We have not paid, and do not expect to declare or pay, cash dividends in the foreseeable future.

### Overview

We are an early-stage medical device company and our mission is to provide medical facilities with an effective, efficient and affordable means to safely dispose of contaminated fluids generated in the operating room and other similar medical locations in a manner that protects hospital workers from exposure and is environmentally friendly. We have acquired patent rights to our products and will distribute our products to medical facilities where bodily and irrigation fluids produced during surgical procedures must be contained, measured, documented and disposed. Our products minimize the exposure potential to the healthcare workers who handle such fluids. Our goal is to create products that dramatically reduce staff exposure without significant changes to established operative procedures, historically a major stumbling block to innovation and product introduction. In addition to simplifying the handling of these fluids, our technologies will provide cost savings to facilities over the aggregate costs incurred today using their current methods of collection, neutralization and disposal. Our products will be sold through independent distributors and manufacturers representatives in the United States and Europe, initially, and eventually to other areas of the world.

We were founded as a Minnesota corporation in 2002 by Lawrence Gadbow, who has over 40 years of experience in the medical devices field, and three other individuals. Our address is 2060 Centre Pointe Boulevard, Suite 7, Mendota Heights, Minnesota 55120. Our telephone number is (651) 389-4800 and our website address is [www.biodrainmedical.com](http://www.biodrainmedical.com). The website is not a part of this registration statement.

We do not currently file reports with the Securities and Exchange Commission (the "SEC"). Upon the effectiveness of the registration statement of which this prospectus forms a part, we will be subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934, as amended, and we intend to file periodic reports, proxy statements and other information with the SEC.

### Private Placement Financing

In August 2008, we completed a private placement financing of our common stock and warrants to certain accredited and institutional investors (the "Investors"). We received gross proceeds of approximately \$1.6 million to date from this private placement financing. Pursuant to securities purchase agreements entered into with these Investors, we sold an aggregate total of 4,481,430 units at a price per unit of \$0.35 and with each unit consisting of one share of our common stock, par value \$0.01 per share, and one warrant to purchase one share of our common stock at \$0.46 per share.

The issuance of our common stock and warrants in connection with the private placement financing, including, upon exercise, the shares of our common stock underlying the warrants, is intended to be exempt from registration under the Securities Act of 1933, as amended, (the "Securities Act") pursuant to Section 4(2) and such other available exemptions. As such, these issued securities may not be offered or sold in the United States unless they are registered under the Securities Act, or an exemption from the registration requirements of the Securities Act is available. No registration statement covering these securities has been filed with the SEC or with any state securities commission in respect of the private placement financing.

In connection with the private placement financing, we entered into a registration rights agreement (the "Registration Rights Agreement") with the Investors. Pursuant to this agreement, we are required to register all the common stock and shares underlying the warrants issued beneficially owned by the Investors to permit the offer and re-sale from time to time of such securities. Additional information regarding the Registration Rights Agreement is set forth below under the section titled "Description of Securities".

### *Infectious and Biohazardous Waste Management*

There has long been recognition of the collective potential for ill effects to healthcare workers from exposure to infectious/biohazardous materials. Federal and state regulatory agencies have issued mandatory guidelines for the control of such materials, in particular bloodborne pathogens. The medical device industry has responded to this need by developing various products and technologies to limit exposure or to alert workers to potential exposure.

The presence of infectious materials is most prevalent in the surgical suite and post-operative care units where often, large amounts of bodily fluids, including blood, bodily and irrigation fluids are continuously removed from the patient during the surgical procedure. Surgical teams and post-operative care personnel may be exposed to these potentially serious hazards during the procedure via direct contact of blood materials or more indirectly via splash and spray.

According to the Occupational Safety and Health Administration (“OSHA”), workers in many different occupations are at risk of exposure to bloodborne pathogens, including Hepatitis B and C, and HIV/AIDS. First aid team members, housekeeping personnel in some settings, nurses and other healthcare providers are examples of workers who may be at risk of exposure.

In 1991, OSHA issued the Bloodborne Pathogens Standard to protect workers from this risk. In 2001, in response to the Needlestick Safety and Prevention Act, OSHA revised the Bloodborne Pathogens Standard. The revised standard clarifies (and emphasizes) the need for employers to select safer needle devices and to involve employees in identifying and choosing these devices. The revised standard also calls for the use of “automated controls” as it pertains to the minimization of healthcare exposure to bloodborne pathogens. Additionally, employers are required to have an exposure control plan that includes universal precautions to be observed to prevent contact with blood or other potentially infectious materials, such as implementing work practice controls, requiring personal protective equipment and regulating waste and waste containment. The exposure control plan is required to be reviewed and updated annually to reflect new or modified tasks and procedures which affect occupational exposure and to reflect changes in technology that eliminate or reduce exposure to bloodborne pathogens.

According to the American Hospital Association’s (AHA) Hospital Statistics, 2008 edition, America’s hospitals performed 70 million surgeries. This number does not include the many procedures performed at surgery centers across the country. In a recent publicly-available Gallup survey, it was found that “on average, operating room directors report their hospitals have approximately six operating rooms.”

The majority of these procedures produce potentially infectious materials that must be disposed of with the lowest possible risk of cross-contamination to healthcare workers. Current standards of care allow for these fluids to be retained in canisters, which are located in the operating room where they can be monitored throughout the surgical procedure. Once the procedure is complete these canisters and their contents are disposed of using a variety of methods all of which include manual handling and result in a heightened risk to healthcare workers for exposure to their contents. A publicly-available Frost & Sullivan research report estimates that 60,000,000 suction canisters are sold each year and the estimated market value of canisters is upwards of \$120,000,000.

With an average cost of \$2.00 per canister, \$2.00 per container of solidification powder and an average disposal cost of \$0.30/lb of infectious waste at approximately 7.5 lbs per canister, the estimated disposal cost to the hospitals who use solidifiers is \$6.25 per canister. This number increases significantly for disposal of high capacity containers according to the average estimate of three manufacturers and three different solidifiers as reported in publicly-available research reports by Frost & Sullivan in 2003 and the Infection Control Today: *Liquid Waste Management & Disposals* by Kathy Dix in 2006.

According to an October 2005 article from Healthcare Purchasing entitled “Safe and Cost-Effective Disposal of Infectious Fluid Waste,” infectious fluid waste accounts for more than 75% of U.S. hospitals biohazard disposal costs. The article also includes findings from a bulletin published by the University of Minnesota’s Technical Assistance Program, “A vacuum system that uses reusable canisters or empties directly into the sanitary sewer can help a facility cut its infectious waste volume, and save money on labor, disposal and canister purchase costs.” The Minnesota’s Technical Assistance Program bulletin also estimated that, in a typical hospital, “...\$75,000 would be



saved annually in suction canister purchase, management and disposal cost if a canister-free vacuum system was installed.”

We expect the hospital surgery market to continue to increase due to population growth, the aging of the population, expansion of surgical procedures to new areas, (for example, use of the endoscope, which requires more fluid management) and new medical technology. According to the American Institute of Architects Consensus Construction Forecast, “Health care is expected to see even stronger growth. With recent emphasis on increasing health-care coverage, including several state mandates for universal or near-universal coverage, health-care construction has become one of the fastest growing institutional construction categories. Panel members are projecting an 8.5 percent increase in spending this year, followed by an additional 5 percent gain next year.”

There are currently approximately 40,000 operating rooms and surgical centers in the U.S. (AHA Hospital Statistics, 2008 edition). The hospital market has typically been somewhat independent of the U.S. economy; therefore we believe that our targeted market is not cyclical, and the demand for our products will not be dependent on the state of the economy. We benefit by having our products address both the procedure market (roughly 70 million procedures) as well as the hospital operating room market (approximately 40,000 operating rooms).

### ***Current Techniques of Collecting Infectious Fluids***

Typically, during the course of the procedure, fluids are continuously removed from the surgical site via wall suction and tubing and collected in large canisters (1,500 - 3,000 milliliters (ml) capacity or 1.5 – 3.0 liters) adjacent to the surgical table.

These canisters, made of glass or more commonly high impact plastic, have graduated markers on them allowing the surgical team to make estimates of fluid loss in the patient both intra-operatively as well as for post operative documentation. Fluid contents are retained in the canisters until the procedure is completed, or until the canister is full and needs to be removed. During the procedure the surgical team routinely monitors fluid loss using the measurement calibrations on the canister and by comparing these fluid volumes to quantities of saline fluid introduced to provide irrigation of tissue for enhanced visualization and to prevent drying of exposed tissues. After the procedure is completed the fluids contained in the canisters are measured and a calculation of total blood loss is determined. This is done to ensure no excess fluids of any type remain within the body cavity or that excessive blood loss has occurred, both circumstances that may place the patient at an increased risk post-operatively.

Once total blood loss has been calculated, the healthcare personnel must dispose of the fluids. This can be done by manually transporting the fluids from the operating room to a waste station and directly pouring the material into a sink that drains to the sanitary sewer where it is subsequently treated by the local waste management facility, a process that exposes the healthcare worker to the most risk for direct contact or splash exposure. Once emptied these canisters are placed in large, red pigmented, trash bags and disposed of as infectious waste - a process commonly referred to as “red-bagging.”

Alternatively the canisters may be opened in the operating room and a gel-forming chemical powder is poured into the canister, rendering the material gelatinous. These gelled canisters are then red-bagged in their entirety and removed to a biohazardous/infectious holding area for disposal. In larger facilities the canisters, whether pre-treated with gel or not, are often removed to large carts and transported to a separate special handling area where they are processed and prepared for disposal. Material that has been red-bagged is disposed of separately, and more expensively, from other medical and non-medical waste by companies specializing in that method of disposal.

Although all of these protection and disposal techniques are helpful, they represent a piecemeal approach to the problem and fall short of providing adequate protection for the surgical team and other workers exposed to infectious waste. A major spill of fluid from a canister, whether by direct contact as a result of leakage or breakage, splash associated with the opening of the canister lid to add gel, while pouring liquid contents into a hopper, or during the disposal process, is cause for concern of acute exposure to human blood components—one of the most serious risks any worker faces in the performance of their job. Once a spill occurs, the entire area must be cleaned and disinfected and

the exposed worker faces a potential of infection from bloodborne pathogens. These pathogens include, but are not limited to, HIV, HPV, and other infectious agents. Given the current legal liability environment the hospital, unable to identify at-risk patients due to concerns over patient rights and confidentiality, must treat every exposure incident as a potentially infectious incident and treat the exposed employee according to a specific protocol that is both costly to the facility and stressful to the affected employee and their co-workers. In cases of possible exposure to communicable disease the employee could be placed on paid administrative leave, frequently involving worker's compensation, and additional workers must be assigned to cover the affected employee's responsibilities. The facility bears the cost of both the loss of the affected worker and the replacement healthcare worker in addition to any ongoing health screening and testing of the affected worker to confirm if any disease has been contracted from the exposure incident. Employee morale issues also weigh heavily on staff and administration when a healthcare worker suffers a potentially serious exposure to bloodborne pathogens.

Our management believes that our technology will (a) significantly reduce the risk of healthcare worker exposure to these infectious fluids, (b) reduce the cost per procedure for handling these fluids, and (c) enhance the surgical team's ability to collect data to accurately assess the patient's status during and after procedures.

## **Products**

### ***The Fluid Management System ("FMS")***

The BioDrain FMS, a fluid collection and measurement system, addresses the need for a simple, safe, hands-free, touch-screen computer-controlled, method of removing, retaining, calculating fluid loss and disposing of fluid waste during operative procedures. Near the end of each procedure, a proprietary cleaning fluid is attached to the FMS and an automatic cleaning cycle ensues, making the FMS ready for the next procedure. The system replaces the current process of collecting fluids in canisters and transporting and dumping in sinks outside of the operating room. In cases where healthcare organizations re-use canisters, the FMS cleaning process eliminates the need for cleaning of canisters for re-use. The FMS greatly reduces the safety issues facing operating room nurses, the cost of the handling process, and the amount of infectious waste generated. The FMS is uniquely positioned to dominate its market segment due to its simple design, ease of use and efficiency in removal of infectious waste with minimal exposure of operating room personnel to potentially infectious material. Contrary to competitive products, the wall-mounted FMS does not take up any operating room floor space and it does not require the use of any external canisters or handling by operating room personnel.

The system is installed on or in the wall of the individual operating room by connecting the device to the hospital's existing sanitary sewer drain and wall suction systems. Once installed, the FMS has one inflow port positioned on the front of the device that effectively replaces the current wall suction ports most commonly used to remove fluids during surgery. Additionally, a disposable external manifold, which will be provided as part of our disposable cleaning kit, allows for expansion to up to three inflow suction ports.

Current techniques typically utilize two to eight canisters positioned on the floor or on elaborate rolling containers with tubing connected to the hospital suction system and to the operative field. Once the waste fluids are collected, they must be transported out of the operating room and disposed of using various methods. These systems take up floor space in and around the operating room and require additional handling by hospital personnel, thereby increasing the risk of exposure of these people to infectious waste fluids generated by the operating room procedure. Handling infectious waste in this manner is also more costly.

Using the BioDrain FMS during a procedure, potentially infectious fluid suctioned from the patient is drawn through standard surgical tubing into the FMS. There, the fluid is separated from the air stream and deposited into a large fluid reservoir where it is retained until a measurement cycle is initiated. Once a certain fluid level is reached in the chamber, a solenoid switch is opened and the fluid is pumped from the fluid reservoir using a pump. The action of the pump removes the fluid and measures the quantity of the fluid as it is removed. This volume measurement is then continuously transmitted to a computer display, which allows the surgical team to immediately assess the total amount

of fluid removed from the patient to that point in the procedure. The fluid removed from the fluid reservoir is passed through the pump and transported directly to the hospital sanitary sewer.

The FMS has had four prototype iterations completed. The product has undergone significant testing, including being utilized in veterinary cases. We are currently finalizing the production specifications for the final production unit and anticipate gearing up the production capabilities for the mass production needed to meet the projected market demand. We will utilize an ISO 13485-certified outsource manufacturing service organization as our manufacturer, at least until such time as it may make sense to vertically integrate this process.

We anticipate the filing of a 510(K) submission shortly. It is anticipated that the unit will be classified as a Class II device by the FDA. While there is always risk in dealing with the FDA and obtaining product approvals, we have done substantial regulatory work to date and we anticipate a fairly standard FDA approval process.

*A summary of the features of the wall unit include:*

- **Minimal Human Interaction.** The wall-mounted FMS provides for a small internal reservoir that keeps surgical waste isolated from medical personnel and disposes the medical waste directly into the hospital sanitary sewer with minimal medical personnel interaction. This minimal interaction is facilitated by the automated electronic controls and computerized LCD touch-screen allowing for simple and safe single touch operation of the FMS.
- **Minimizes Exposure.** The FMS minimizes surgical team and cleaning crew exposure to bloodborne pathogens, as the system is hands-free and fully automated with electronic controls with regards to handling any waste fluid. The FMS is unique and provides advanced fluid management technology in that it eliminates collection canisters entirely, is directly connected to the hospital sanitary sewer and provides continuous flow of waste fluids from the operative field.
- **Fluid Measurement.** The FMS volume measurement allows for in-process, accurate measurement of blood/saline suctioned during the operative procedure, and eliminates much of the estimation of fluid loss currently practiced in the operating room. This will be particularly important in minimally invasive surgical procedures, where accounting for all fluids, including saline added for the procedure, is vital to the operation. The surgical team can view in real time the color of the extracted or evacuated fluid through the viewing window on the FMS.
- **Disposable Cleaning Kit.** A single-use, disposable cleaning kit that is used at the conclusion of each procedure prepares the FMS for reuse, reducing operating room turnover time. The cleaning kit includes a BioDrain proprietary cleaning fluid with unique cleaning properties that break up blood cells and any other fluid waste and bio-film at the cellular level, maintaining a clear path for fluids in the next procedure. The disposable cleaning kit also includes a disposable external manifold allowing for multiple suction connections to the system. The kit is a consumable component of the product offering, to be used in each procedure. The cleaning fluid should be a substantial revenue generator for the life of the FMS.
- **Ease of Use.** The FMS simply connects to the existing suction tubing from the operative field (causing no change to the current operative methods). Pressing the *START* button on the FMS touch screen causes the suction tip to operate similarly to preexisting systems, thereby requiring virtually no learning curve for operation at the surgical site.
- **Installation.** BioDrain will arrange installation of the FMS products through a partnership or group of partnerships. Such partnerships will include but not be limited to being executed with distribution partners, manufacturers representatives, hospital supply companies and the like. We will train our partners and standardize the procedure to ensure the seamless installation of our products. The FMS is designed for

minimal interruption of operating room and surgical room utilization. Plug-and-play features of the design allow for almost immediate connection and hook up to hospital utilities for wall-hung units allowing for quick start-up post installation.

- Sales Channel Partners. The FMS will be sold to end-users through a combination of independent stocking distributors, manufacturers representatives and, possibly later, direct sales personnel. All personnel involved in direct contact with the end-user will have extensive training and will be approved by BioDrain. Exclusive agreements will be in place between BioDrain and the sales channel partners outlining stocking expectations, sales objectives, target accounts, and the like. Contractual agreements with the sales channel partners will be reviewed on an annual basis and could possibly be terminated at any time by BioDrain based on certain specified conditions.
- Competitive Pricing. Estimated end-user pricing is expected to be in the range of \$12,000 - \$15,000 list per system (one per operating room - installation extra) and \$15 - \$20 per unit retail for the proprietary cleaning kit to the U.S. hospital market. The distributor or channel partner then sets the final retail price based on quantity discounts for multiple installations.

## **Patents and Intellectual Properties**

BioDrain recently completed and executed an agreement to secure the exclusive assignment of the patent-pending product and rights from an inventor, Marshall Ryan. Mr. Ryan received a combination of cash and warrants, and he will receive a 4% royalty on FMS sales for the life of the patent. To date, the patent has been vigorously supported and pursued. Our competitive advantage would be lost if these patents were found to be invalid in the jurisdictions in which we sell or plan to sell our products. No assurance can be given that any measure we implement will be sufficient to protect our intellectual property rights. If we cannot protect our rights, we may lose our competitive advantage. There is no assurance that any of these protections can be maintained or that they will afford us a meaningful competitive advantage. Moreover, if it is determined that our products infringe on the intellectual property rights of third parties, we may be prevented from marketing our products.

Mr. Ryan's cooperation, as specified in the agreement, will be required to complete the expected filing of a CIP (continuation in part) with the U.S. Patent Office that will broaden the patent coverage for the Company.

The provisional patent entitled "Method and Apparatus for Disposing of Liquid Surgical Waste for Protection of Healthcare Workers" was filed in August 2002, application number 10/524,086. The patent was filed in the U.S. in August 2003 and also in Europe. In the Spring of 2007, we received notification from both the U.S. and European patent offices that our patent application was approved with final notification pending. Our European patent application was since approved on April 4, 2007 (Patent Certificate No. 1539580) and the final notification relating to the U.S. patent application is still pending; however, a Notice of Allowance from the U.S. Patent Office has been received. The invention encompasses a method of handling, collecting, managing, measuring and/or disposing of fluids, including liquids. The patent includes a cleaning kit that contains a pre-measured amount of a cleaning solution for cleaning the wall suction unit before a subsequent use. A key claim in the patent provides for continuous flow of the FMS unit in suctioning surgical fluids, which means that the unit never has to be shut off or paused to empty the fluid contents to the sewer. Other products need to pause to change over to additional canisters or collection volumes, thereby causing a delay in the surgical procedure. Our management believes that the continuous flow claim in the patent provides BioDrain with a significant competitive advantage, particularly on large fluid generating procedures.

From time to time, we may encounter disputes over rights and obligations concerning intellectual property. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business, our reputation, or our ability to compete. Also, protecting our intellectual property rights could be costly and time consuming.

## The Disposable Cleaning Kit

The disposable cleaning kit is an integral, critical component of the FMS and our total value proposition to the customer. It consists of a proprietary, pre-measured amount of cleaning solution in a plastic pouch, bottle or similar container with a connection mechanism to attach to the FMS. The disposal cleaning kit also includes an external manifold allowing for up to three suction ports. The proprietary cleaning solution is attached and recommended to be used following each surgical procedure. Due to the nature of the fluids and particles removed during surgical procedures, the FMS is recommended to be cleaned following each use. Utilizing the available vacuum of the wall system, the proprietary cleaning fluid is drawn into the FMS to provide a highly effective cleaning process that breaks up bio-film at the cellular level. Proper cleaning is required for steady, dependable and repeated FMS performance and for maintenance of the warranty of the FMS.

The BioDrain proprietary cleaning fluid is a critical component of our business model. The cleaning fluid has the “razor blade business model” characteristic with an annuity-type of revenue situation for every FMS unit installed, and revenues from the sale of fluids are forecast to be significantly higher than the revenues from the unit. We will take necessary steps to protect the supply chain, as well as to ensure that only our fluid will be utilized following procedures.

## Corporate Strategy

BioDrain will become successful by deploying a strategy of focused expansion within its core product and market segments, while utilizing a progressive approach to manufacturing and marketing to ensure maximum flexibility and profitability.

Our strategy will be to:

- <sup>n</sup> *Develop a complete line of wall-installed fluid evacuation systems (“FMS”) for use in hospitals and free standing surgery centers as well as clinics and physicians’ offices.* Initially, we have developed the FMS to work in hospital operating rooms and surgical centers. This device was developed for use with the wall vacuum suction currently installed in hospitals. Opportunities for future products include an FMS developed for post-operation and recovery rooms with multiple inlet ports and multiple volume measurements.
- <sup>n</sup> *Provide products that greatly reduce worker and patient exposure to harmful materials present in infectious fluids and that contribute to an adverse working environment.* By efficiently removing infectious fluid waste the FMS protects healthcare workers from contact with potential contamination. As the first true innovation in the measurement and automatic removal of infectious fluid waste, the FMS will redefine the manner in which such material is collected, measured and disposed of in operating rooms, post-operating recovery, emergency rooms and intensive care settings. The cost of such exposures, measured in terms of human suffering, disease management costs, lost productivity, liability or litigation, will be, when properly leveraged, the strongest motivating factor for facilities looking at investing in the FMS line of products.
- <sup>n</sup> *Utilize existing medical products independent distributors and manufacturers representatives to achieve the desired market penetration.* Contacts have been established with several existing medical products distributors and manufacturers representatives and interest has been generated regarding the sales of the BioDrain FMS and cleaning kits. In addition to their normal sales practices, the distributors will carry a significant supply of cleaning kits for their current customers and could purchase an FMS for demonstration to new potential customers.
- <sup>n</sup> *Continue to utilize operating room consultants, builders and architects as referrals to hospitals and day surgery centers.* To date, referrals have been received from this group resulting in several potential sales and a potential beta site. These referrals have shortened the time frame for contacting and demonstrating the FMS to potential customers as well as providing us with valuable responses to the FMS from the customer base, the vast majority of which have been extremely positive to date.

<sup>n</sup> Utilize a Medical Advisory Board to assist in market penetration. We have set up a Medical Advisory Board consisting of a pioneering surgeon, two operating room consultants and a nurse anesthetist to assist us in understanding the needs of our market and ways to better serve that market. From time to time executive management may elect to change the composition of the Medical Advisory Board, including but not limited to, expanding the size of the Medical Advisory Board.

Other strategies may include:

- <sup>n</sup> Employing a lean operating structure, while utilizing the latest trends and technologies in manufacturing and marketing, to achieve both market share growth and projected profitability.
- <sup>n</sup> Providing a leasing program and/or “pay per use” program as purchasing alternatives.
- <sup>n</sup> Providing service contracts to establish an additional revenue stream.
- <sup>n</sup> Utilizing management team contacts in global sourcing of key sub-assemblies to drive significant per unit cost reduction at volume.
- <sup>n</sup> Offering an innovative warranty program that is contingent on the exclusive use of our disposable cleaning kit to insure the success of our after-market disposable products.

## **Technology and Competition**

### ***Fluid Management for Surgical Procedures***

The management of infectious fluids produced during and after surgery is a complex mix of materials and labor that consists of primary collection of fluid from the patient, transportation of the waste fluid within the hospital to a disposal or processing site and finally to the disposal of that waste either via incineration or in segregated landfills.

Once the procedure has ended, the canisters and their contents must be removed from the operating room and disposed. There are several methods used for disposal, all of which present certain risks to the operating room team, the crews who clean the rooms following the procedure, and the other personnel involved in their final disposal. These methods include:

- *Direct Disposal Through the Sanitary Sewer.* In virtually all municipalities, the disposal of liquid blood may be done directly to the sanitary sewer where it is treated by the local waste management facility. This practice is approved and recommended by the EPA. In most cases these municipalities specifically request that disposed bio-materials not be treated with any known anti-bacterial agents such as glutaldehyde, as these agents not only neutralize potentially infectious agents but also work to defeat the bacterial agents employed by the waste treatment facilities themselves. Disposal through this method is fraught with potential exposure to the service workers, putting them at risk for direct contact with these potentially infectious agents through spillage of the contents or via splash when the liquid is poured into a hopper - a specially designated sink for the disposal of infectious fluids. Once the infectious fluids are disposed of into the hopper, the empty canister is sent to central processing for re-sterilization (glass and certain plastics) or for disposal in the biohazardous/infectious waste generated by the hospital (red-bagged).
- *Conversion to Gel for Red-Bag Disposal.* In many hospital systems the handling of this liquid waste has become a liability issue due to worker exposure incidents and in some cases has even been a point of contention during nurse contract negotiations. Industry has responded to concerns of nurses over splash and spillage contamination by developing a powder that, when added to the fluid in the canisters, produces a viscous, gel-like substance that can be handled more safely. After the case is completed and final blood loss is calculated, a port on the top of each canister is opened and the powder is poured into it. It takes several minutes for the gel to form, after which the canisters are placed on a service cart and removed to the red-bag disposal area for disposal with the other infectious waste. There are four major drawbacks to this system:

- o It does not ensure protection for healthcare workers, as there remains the potential for splash when the top of the canister is opened.
- o Based on industry pricing data, the total cost per canister increases by approximately \$2.00.
- o Disposal costs to the hospital increase dramatically as shipping, handling and landfill costs are based upon weight rather than volume in most municipalities. The weight of an empty 2,500 ml canister is approximately one pound. A canister and its gelled contents weigh approximately 7.5 pounds.
- o The canister filled with gelled fluid must be disposed; it cannot be cleaned and re-sterilized for future use.

Despite the increased cost of using gel and the marginal improvement in health care worker protection it provides, several hospitals have adopted gel as their standard procedure.

#### *Drainage Systems*

Several new medical devices have been developed which address the deficiencies described above. DeRoyal (formerly Waterstone), Dornach, Stryker Instruments, and Cardinal Health, Inc. have all developed systems that provide for disposal into the sanitary sewer without pouring the infectious fluids directly through a hopper disposal or using expensive gel powders. Most of them continue to utilize some variant on the existing canister technology, and while not directly addressing the canister, most have been successful in eliminating the need for expensive gel and its associated handling and disposal costs.

#### ***Current Competition, Technology, and Costs***

##### *Single Use Canisters*

In the U.S., glass reusable containers are infrequently used as their high initial cost, frequent breakage and costs of reprocessing are typically more costly than single use high impact plastic canisters, even when disposal is factored in. Each single use canister costs roughly \$2.00 each and it is estimated that a range of two to eight canisters are used in each procedure, depending on the operation.

Our FMS would replace the use of canisters and render them unnecessary, as storage and disposal would be performed automatically by the FMS.

##### *Solidifying Gel Powder*

The market potential for solidifying gel was estimated at over \$100 million in 2002. This market is not yet fully realized, but many hospitals, responding to increased concerns over inadvertent worker exposure to liquid waste, are converting to this technology. There have been many reports (Allina and Fairview to name two Minneapolis-based health systems) of nursing contracts containing language that requires the facilities to use gels after every procedure. Our management is aware that at a large healthcare facility in Minneapolis, Minnesota, routine usage of gel increased annual operating room expenditures by \$63,000, based on 14,000 procedures done in 2006. It is clear that solidifying gels, while not providing complete freedom from exposure to workers does present a level of safety and peace of mind to the healthcare workers who handle gel-treated canisters. While several gel manufacturers proclaim that sterility of the contents is achieved with the use of their product, protocols continue to recommend that red-bag procedure is followed when using these products. One drawback of the solidifying gels is that they increase the weight of the materials being sent to the landfill by a factor of five to seven times, resulting in a significant cost increase to the hospitals that elect to use the products.

BioDrain's FMS would eliminate the need for solidifying gel, providing savings in both gel powder usage and associated landfill costs.

Current disposal methods include the removal of the contaminated canisters (with or without the solidifying gel) to designated biohazardous/infectious waste sites. Previously many hospitals used incineration as the primary means of disposal, but environmental concerns at the international, domestic and local level have resulted in a systematic decrease in incineration worldwide as a viable method for disposing of blood, organs or materials saturated with bodily fluids. When landfill disposal is used, canisters are included in the general red-bag disposal and, when gel is used, comprise a significant weight factor. Where hopper disposal is still in use, most of the contents of the red-bag consist only of outer packaging of supplies used in surgery and small amounts of absorbent materials impregnated with blood and other waste fluid. These, incidentally, are retained and measured at the end of the procedure to provide a more accurate assessment of fluid loss or retention. Once at the landfill site, the red-bagged material is often steam-sterilized with the remaining waste being ground up and interred into a specially segregated waste dumpsite.

On a related note, many countries are struggling with landfills within their own borders, and a thriving and growing biohazardous/infectious waste disposal business is emerging. The inevitable disputes connected with such a highly charged and potentially politically sensitive topic have developed, particularly in Europe and the former Soviet Republics, over the disposition and disposal of these infectious wastes. Such disputes have also arisen in the U.S. as states lacking landfill capacity (New Jersey, for example) seek to offload their medical waste on less populous states or those which lack stringent enforcement.

Moreover, as incineration increasingly loses its appeal, and as individual countries and states reject importation of infectious materials, the disposal of these fluids may take on more important political and environmental overtones. For example, there are several recent rulings within the European Union that resulted in medical waste being categorized as a tradable commodity meaning that no member country can reject medical waste from another European Union partner. Germany, which used to dump its medical waste in the former East Germany, is now exporting its waste to Belgium and France. France in particular is fighting this waste and wants Germany to deal with its own waste within its own borders. In other parts of the world, landfills are often inhabited by otherwise homeless or poverty level people, who scavenge the sites for food and clothing, and often come into contact with blood soaked medical waste. Disposal of fluid down the sanitary sewer and elimination of large numbers of canisters from the volume of red-bag material, while not addressing all of the concerns regarding landfills, would certainly reduce the amount of disposed and blood impregnated waste.

By eliminating large numbers of canisters and the gel powder, our FMS products would reduce their costs entirely and reduce the annual expenditure and amount of canisters sent to of landfills dramatically.

### *Handling Costs*

Once the surgical team has finished with the procedures and a blood loss estimate is calculated, the liquid waste (with or without solidifying gels) is removed from the operating room, and either disposed of down the sanitary sewer or transported to an infectious waste area of the hospital for later removal.

Our FMS would eliminate the handling costs associated with the disposal of fluid or handling of contaminated canisters as the liquid waste is automatically emptied into the sanitary sewer after measurements are obtained.

A hidden but very real and considerable handling cost is the cost of an infectious fluid exposure. In a July 2007 research article published by Infection Control Hospital Epidemiology, it is concluded that "Management of occupational exposures to blood and bodily fluids is costly; the best way to avoid these costs is by prevention of exposures." The research shows that hospital management cost associated with occupational blood exposure can, conservatively, be more than \$4,500. Because of privacy laws, it is difficult to obtain estimates of exposure events at individual facilities, however in each exposure the worker must be treated as a worst case event. This puts the healthcare worker through a tremendous amount of personal trauma, and the health care facility through considerable expense and exposure to liability and litigation.



Often overlooked as a direct cost, nursing personnel spend significant time in the operating room readying canisters for use, calculating blood loss and removing or supervising the removal of the contaminated canisters after each procedure. Various estimates have been made, but an internal study at a large healthcare facility in Minneapolis, Minnesota, revealed that the average nursing team spends twenty minutes pre-operatively and intra-operatively setting up, monitoring fluid levels and changing canisters as needed and twenty minutes post-operatively readying blood loss estimates or disposing of canisters. Estimates for the other new technologies reviewed have noted few cost savings to nursing labor.

Our FMS products would save nursing time. Set-up is as easy as attaching the suction tube to the inflow port of the FMS. Post-operative clean-up requires approximately five minutes, the time required to dispose of the suction tubing to the red-bag, calculate the patient's blood loss, attach the bottle of cleaning solution to the inlet port of the unit, initiate the cleaning cycle, and dispose of the emptied cleaning solution.

#### *Competitive Products*

Disposable canister system technology for fluid management within the operating room has gone virtually unchanged for decades. As concern for the risk of exposure of healthcare workers to bloodborne pathogens, and the costs associated with canister systems has increased, market attention has increasingly turned toward fluid management. The first quarter of 2001 saw the introduction of three new product entries within the infectious material control field. Stryker Instruments introduced the "Neptune" system, offering a combination of bio-aerosol and fluid management in a portable two piece system; Waterstone Medical (now DeRoyal) introduced the "Aqua Box" stationary system for fluid disposal; and Dornach Medical Systems introduced the "Red Away" stationary system for fluid collection and disposal. All companies, regardless of size, have their own accessory kits. For purposes of comparison, based on information obtained from a surgical center in Minnesota, the Stryker Neptune system's estimated cost per procedure is more than \$15 (including single-use-manifold plus cleaning solution).

#### **Marketing and Sales**

##### ***Distribution***

Our FMS products will be sold through independent distributors and manufacturers representatives covering the vast majority of major U.S. markets. The targeted customer base will include nursing administration, operating room managers, CFOs, risk management, and infection control. Other professionals with an interest in the product include physicians, nursing, biomedical engineering, anesthetists, anesthesiologists, human resources, legal, administration, and housekeeping.

The major focus of the marketing effort will be to introduce our products as the first capable of effectively removing infectious waste and disposing of it automatically while providing accurate measurement of fluids removed while limiting exposure of the surgical team and healthcare support staff.

Governmental and professional organizations have become increasingly aggressive in attempting to minimize the risk of exposure to bloodborne pathogens by medical personnel. It is believed that our technology represents a breakthrough in the collection and disposal of this highly contaminated material. It is anticipated that our products will be widely acclaimed in the medical workplace and quickly adopted as the new standard of practice.

Distributors will either have installation and service capability, or we will contract those functions out to an independent service/maintenance company. We have been in contact with both distributors, and service companies regarding these installation requirements. The Company will establish extensive training and standards for the service and installation of the FMS to ensure consistency and dependability in the field.

We will structure our pricing and relationships with distributors and/or service companies to ensure that these entities receive at least a typical industry level compensation for their activities. The cost and price estimates currently in place with the Company conservatively allow for reasonable profit margins for all entities in the FMS and the cleaning fluid supply chain.

### **Promotion**

The dangers of exposure to infectious fluid waste are well recognized in the medical community. It is our promotional strategy to effectively educate medical staff regarding the risks of contamination using current waste collection procedures and the advantages of the FMS in protecting medical personnel from inadvertent exposure. We intend to leverage this medical awareness and concern with education of regulatory agencies at the local, state and federal level about the advantages of the FMS.

We intend to supplement our sales efforts with a promotional mix that will include a number of printed materials, video support and a web site. Our management team believes its greatest challenge lies in reaching and educating the 1.6 million medical personnel who are exposed daily to fluid waste in the operating room or in other healthcare settings (OSHA, CPL 2-2.44C). These efforts will require utilizing single page selling pieces, video educational pieces for technical education, liberal use of scientific journal articles and a web page featuring product information, educational materials, and training sites.

We will support our sales organization by attending major scientific meetings where large numbers of potential users are in attendance. The theme of the trade show booth will focus on education, the awareness of the hazards of infectious waste fluids and the Company's innovative solution to the problem. We will focus our efforts in initially on the Association of Operating Room Nurses ("AORN") meeting, where the largest concentration of potential buyers and influencers are in attendance. We will obtain an Internet mailbox and will feature information on protection of the healthcare worker as well as links to other relevant sites. We intend to invest in limited journal advertising until targeted audiences have been fully identified. The initial thrust will focus on features of the product and ways of contacting the Company via the web page or directly through postage paid cards or direct contact. Additionally, we will create a press release mailing to clinician oriented periodicals for inclusion in New Product News columns. These periodicals will provide the reader with an overview of the product and will direct readers to pursue more information by direct contact with us by accessing our web page.

### **Pricing**

Prices for the FMS and its disposable cleaning kit will reflect a cost saving to the hospital over its current procedure costs. This strategy should ensure that sales objectives will be addressed in actual hard cost comparisons rather than by addressing soft costs such as warehouse and operating room space wasted storing canisters, inventory cost, ordering cycles, worker's comp exposure - all debatable arguments fraught with defensible positions from the customer's knowledge base. It is our belief that our products are superior to competitive technologies and that the products will be able to retain their superiority for the duration of the existing and pending patents.

The FMS will list for approximately \$12,000 - \$15,000 per system (one per operating room - installation extra) and \$15 - \$20 per unit retail for the proprietary cleaning kit to the U.S. hospital market. Installation will be done by distributors, independent contractors, or in the case of larger facilities by in-house engineering at an estimated price of \$2,000, depending on the operating room. Installation of the FMS requires access only to the hospital's sanitary sewer, vacuum suction, and electricity. In smaller facilities an outside contractor may be called in, larger institutions have their own installation and maintenance workforce. Installation time should not seriously impact the use of the operating room. Each FMS will have an industry standard warranty period that can be extended through documented use of the Company's sterilization kit.

Actual selling price of the hardware will be at a standard rate to the distributor, permitting them to have price flexibility when selling multiple units to hospitals and clinics. The current plan is for the disposable cleaning kit to be priced at \$15 - \$20, and a commission to be paid to the distributor or independent representative upon each sale.

## Engineering and Manufacturing

We have recently finalized our relationship for the engineering and manufacturing of our product. The company performing these functions is ISO 13485:2003 and GMP-certified and has the necessary expertise and experience to build our product in a cost-effective manner. We recently hired an Executive Vice President of Operations, Chad Ruwe, who has 20 years of fluid management systems experience and a demonstrated history of driving lean manufacturing global sourcing and joint venture leadership.

## Government Regulation

To date, no regulatory agency has established exclusive jurisdiction over the area of biohazardous and infectious waste in healthcare facilities. Several prominent organizations maintain oversight function concerning various aspects of pertinent technologies and methods of protection.

These agencies include:

- OSHA (Occupational Safety and Health Administration)
- EPA (Environmental Protection Agency)
- DOT (Department of Transportation)
- JCAHO (Joint Commission of Accreditation of Hospitals)
- NFPA (National Fire Protection Association)
- AIA (American Institute of Architects)
- AORN (Association of Operating Room Nurses)
- Specific state, county, hospital or institution guidelines

After we secure Underwriters Laboratories (“UL”) approval for the FMS, we plan to file a 510(K) submission for the approval of the FMS. We anticipate that this will be a Class II device, which is less stringently reviewed as that of a Class III device. We have teamed with regulatory consultants with significant experience in the FDA approval process. While each submission and approval is different, our regulatory consultants have advised that this is a fairly standard type of FDA 510(K) submission, with a high probability of approval by the FDA. The timing to complete the 510(K) process varies with each submission, however we anticipate that the product could receive FDA approval a few months after the submission is filed. However, there is no assurance that FDA approval will be obtained.

Following FDA approval to market our product, we will be subject to the normal ongoing audits and reviews by the FDA and other governing agencies. These audits and reviews are standard and typical in the medical device industry, and we do not anticipate being affected by any extraordinary guidelines or regulations, beyond those standard to the industry.

In the event that we fail to obtain FDA approval by the end of August 2009, the majority-in-interest of investors (“the Investors”) through our August 2008 offering have the right to cause the Company to make the following restructuring changes:

1. All Company assets will be distributed to a wholly-owned subsidiary (“Privco”). Privco will have the identical number of common shares outstanding as the Company.
2. BioDrain Original Shareholders (the “Founders”) will cancel all Company stock and no longer own any Company equity.

3. In consideration of such cancellation, the Founders will receive Privco stock and options so that the Founders have the same percentage ownership of Privco that it had in the Company. The Company will retain the rest of Privco equity.
4. All Company stock options will be cancelled and replaced with Privco stock options.
5. The Company will have new directors and officers selected by Investors.
6. In the event of a reverse merger or other similar transaction with a new operating business, the Company will either spin-off the remaining Privco equity to the remaining Company shareholders or liquidate the Privco securities and distribute any net proceeds to the Company shareholders.

The Private Placement Memorandum related to our August 2008 offering of securities will be deemed modified to reflect the restructuring if the 510(k) approval is not obtained within the 12 month timeframe from the end of August 2008.

### **Employees**

We currently have 4 full-time employees, a Chief Executive Officer, a Chief Financial Officer, an Executive Vice President of Operations and a Director of Sales. In addition, we use contractors and consultants to supplement our functional needs. We will seek to add additional employees in sales and marketing, operations, product development and other areas as we grow and penetrate the market. No employee is represented by a labor union, and we have never suffered an interruption of business caused by labor disputes. Management believes that our relations with our employees are good.

### **Legal Proceedings**

We are not a party to any pending legal proceedings that, if decided adversely to us, would have a material adverse effect upon our business, results of operations or financial condition and are not aware of any threatened or contemplated proceeding by any governmental authority against our company. To our knowledge, we are not a party to any pending civil or criminal action or investigation.

### **Description of Property**

Our corporate offices are located at 2060 Centre Pointe Boulevard, Suite 7, Mendota Heights, Minnesota 55120. We currently lease approximately 3,600 square feet with possible expansion to 4,700 square feet of office space at this location. The monthly base rent for the 3,600 square feet is \$3,000 per month for months 1 through 12; \$2,395 per month for months 13 through 24; \$2,467 per month for months 25 through 36; \$2,541 per month for months 37 through 48; and \$2,617 per month for months 49 through 60. In addition to the base rent, we also pay our share of common area maintenance expenses, real estate tax expenses/assessments and utilities, which are determined by the square footage of the premises we lease. The common area maintenance expense is not applicable in months 1 through 12, but will be in place for the remainder of the lease. The lease term began on November 1, 2008 and will extend for a period of 5 years, ending on October 31, 2013. We expect that the premises in which our principal executive office is located will be adequate for our office needs for term of the lease.

## Directors, Executive Officers, Promoters and Control Persons

The following table identifies our current executive officers and directors.

Name	Age	Position Held
Lawrence W. Gadbaw	71	Chairman of the Board of Directors
Kevin R. Davidson	48	President, Chief Executive Officer and Director
Gerald D. Rice	66	Chief Financial Officer, Secretary and Director
Chad A. Ruwe	44	Executive Vice President of Operations and Director
Peter L. Morawetz	81	Director
Thomas J. McGoldrick	67	Director
Andrew P. Reding	38	Director

There are no family relationships between any of our directors or executive officers. Our executive officers are appointed by our board of directors and serve at the board's discretion. There is no arrangement or understanding between any of our directors or executive officers and any other person pursuant to which any director or officer was or is to be selected as a director or officer.

None of our directors or executive officers has, during the past five years,

- had any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer, either at the time of the bankruptcy or within two years prior to that time,
- been convicted in a criminal proceeding and none of our directors or executive officers is subject to a pending criminal proceeding,
- been subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, futures, commodities or banking activities, or
- been found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

### Business Experience

**Lawrence W. Gadbaw, Chairman of the Board of Directors.** Mr. Gadbaw has served as a director since our inception in 2002. He served as our President and Chief Executive Officer from 2002 to 2006 and Executive Vice President Business Development from 2006 to 2008. Mr. Gadbaw has also been Chairman of Health Care Marketing, Inc., a manufacturer and marketer of health care products, since 1992. From 1990 to 1992, he was President, Chief Operating Officer and Director of Augustine Medical, Inc., a manufacturer of hypothermia treatment products. Mr. Gadbaw was President, Chief Executive Officer, Treasurer and Director of Bio-Vascular, Inc., a manufacturer of tissue and biosynthetic-based medical devices and grafts for cardiovascular surgery, from 1985 to 1989. From 1979 to 1981, he was Director of Sales and Marketing for Medical Incorporated, a manufacturer of cardiovascular products. Mr.

Gadbaw was General Manager of Sween Corporation, a manufacturer of health care products, from 1977 to 1979. He held numerous positions in marketing and sales with Medtronic, Inc., a manufacturer and distributor of cardiovascular products from 1967 to 1977, including the position of Director of U.S. Sales.

**Kevin R. Davidson, President and Chief Executive Officer.** Mr. Davidson has served as our President and Chief Executive Officer since 2006 and has several years of experience in the medical technology sector. He has been the Chief Financial Officer of three medical technology companies including his most recent position beginning in 2003 as Chief Financial Officer, Vice President of Business Development at OrthoRehab, Inc., where he led the successful sale of the organization to Otto Bock GmbH. In addition to his Chief Financial Officer experience, Mr. Davidson was an investment banker in the medical technology sector as a Managing Director with the Arthur Andersen Global Corporate Finance Group from 1998 to 2002, where he led and closed several transactions in this sector. Mr. Davidson also has experience in the corporate development function in the medical area, including holding positions at St. Jude Medical, Inc. from 1989 to 1992. In addition, he has extensive domestic and international experience as a management consultant in this area. Mr. Davidson received a BA in Economics from Gustavus Adolphus College in 1982 and an MBA from The Colgate Darden Graduate School of Business Administration at the University of Virginia in 1986.

**Gerald D. Rice, Chief Financial Officer and Secretary.** Mr. Rice has over thirty years of executive financial experience and has served as our Chief Financial Officer and Secretary since our inception in 2002. From 1999 to 2002, he provided financial consulting at a private practice and he served as Controller of Medical Graphics Corporation from 1998 to 1999. From 1995 to 1998, Mr. Rice served as Chief Financial Officer of Road Rescue and prior to that, from 1979 to 1995, he held various positions as Chief Financial Officer or financial consultant at several companies. Mr. Rice spent ten years from 1969 to 1979 as a manufacturing consultant for the public accounting firms of Arthur Andersen & Co. and RSM McGladrey. During that time, he worked with a diverse array of clients, including MTS, Arctic Cat, TESCOM and Lester's, designing and installing manufacturing information systems. Mr. Rice is a Certified Public Accountant and holds several other certifications in various fields. He received his business degree from the University of Minnesota in 1967 and his Masters of Business Administration from the University of Minnesota in 1988.

**Chad A. Ruwe, Executive Vice President of Operations.** Mr. Ruwe became our Executive Vice President of Operations in 2008. He has over 20 years experience in global business leadership in critical fluid management industries focused on containment, management, and delivery of highly toxic and corrosive fluids. From 2002 to 2007 he held several senior management positions with Entegris, Inc., including General Manager of NT International, a wholly owned subsidiary of Entegris, Vice President of the Fluid Handling Systems business, Vice President of the Semiconductor business and Vice President & General Manager of the Liquid MicroContamination business. From 1996 to 2002, Mr. Ruwe was with Tescom Corporation (now part of Emerson's Climate Technologies Group) serving as Vice President & General Manager of the High Purity Controls Division and Hankuk Tescom, Ltd., an assembly and test facility in South Korea. Mr. Ruwe held several management level positions at Parker Hannifin Corporation from 1987 to 1996. Mr. Ruwe has previously served on the board of directors for two early stage venture start-ups. He holds a Master of Science degree in Management, specializing in Operations Research, from the University of Alabama and he received his Bachelor of Science degree in Mechanical Engineering, specializing in Fluid Dynamics, from The Ohio State University in Columbus, Ohio.

**Peter L. Morawetz, PhD, Director.** Dr. Morawetz is a consultant to development-stage companies in the medical and high technology field. He has served as a director of the Company since its inception in 2002. From 1985 to 2002, he provided consulting services in the fields of technology and product positioning for a large number of U.S. and foreign corporations. Notable clients included Medtronic, EMPI, Hutchinson Technologies, Minntech, Bauer Biopsy Needles, American Medical, Lectec and Walker Reading Technologies. In the course of a thirty-year career, he covered progressively important positions in engineering and R&D management. His contributions include development of neurological devices at Medtronic, Inc. from 1971 to 1981 and EMPI, Inc. from 1981 to 1985, as well as magnetic-storage devices at Univac from 1958 to 1961 and again from 1965 to 1967 and Fabri-Tek from 1961 to 1965. He has seven patents and has been active in market planning and corporate development.

**Thomas J. McGoldrick, Director.** Mr. McGoldrick has served as a director of the Company since 2005. Prior to that, he served as Chief Executive Officer of Monteris Medical Inc. from November 2002 to November 2005. He has been in the medical device industry for over thirty years and most recently was cofounder and Chief Executive Officer of Fastitch Surgical in 2000. Fastitch is a startup medical device company with unique technology in surgical wound closure. Prior to Fastitch, Mr. McGoldrick was President and Chief Executive Officer of Minntech from 1997 to 2000. Minntech is a \$75 million per year publicly traded (NASDAQ-MNTX) medical device company offering services for the dialysis, filtration, and separation markets. Prior to employment at Minntech from 1970 to 1997, he held senior marketing, business development and international positions at Medtronic, Cardiac Pacemakers, Inc. and Johnson & Johnson. Mr. McGoldrick is on the board of directors of two other startup medical device companies

**Andrew P. Reding, Director.** Mr. Reding is an executive with extensive experience in sales and marketing of capital equipment for the acute care markets. He has served as a director of the Company since 2006 and he is currently the President and Chief Executive Officer of TRUMPF Medical Systems, Inc., a position he has held since April 2007. Prior to that, he was Director of Sales at Smith & Nephew Endoscopy and prior to that, he served as Vice President of Sales and Director of Marketing with Berchtold Corporation from 1994 to 2006. His experience is in the marketing and sales of architecturally significant products for the operating room, emergency department and the intensive care unit. Mr. Reding has successfully developed high quality indirect and direct sales channels, implemented programs to interface with facility planners and architects and developed GPO and IDN portfolios. Mr. Reding holds a bachelors degree from Marquette University and an MBA from The University of South Carolina.

## Executive Compensation

### Summary of Compensation

The following table summarizes all compensation for the fiscal year ended December 31, 2007 paid to our President and Chief Executive Officer and our Chief Financial Officer and Secretary. No executive officer received total compensation exceeding \$100,000 during the fiscal year ended 2007.

**Summary Compensation Table**

Name and principal position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Kevin R. Davidson, President and Chief Executive Officer	2007	59,375							59,375
Gerald D. Rice, Chief Financial Officer and Secretary	2007	43,542							43,542

### Outstanding Equity Awards at Fiscal Year-End

The Company made no equity awards during the fiscal year ended December 31, 2007.

### Discussion of Compensation

Our board of directors currently evaluates and sets the compensation policies and procedures for our executive officers but as soon as established, this function will be performed by a compensation committee composed solely of independent directors. Except as provided for in the employment agreements described below, annual reviews generally determine future salary and bonus amounts for our executive officers, as a part of the Company's compensation procedures.

### Employment Agreements, Termination of Employment and Change-in-Control Arrangements

The following discussions provide a description of the material terms and conditions of the employment agreements described below. The discussions are qualified in their entirety by the full text of the agreements.

We entered into an employment agreement with Kevin R. Davidson, President and Chief Executive Officer, on October 4, 2006. The term of the agreement is four years and is automatically renewable except by action of our board of directors. The agreement provides for an annual base salary of \$150,000 (payable beginning when cumulative new funding for the Company reaches \$250,000), with an increase to \$170,000 upon reaching funding of \$1,000,000 and \$200,000 upon reaching cumulative net sales of \$5,000,000. Mr. Davidson is eligible to participate in the Company's bonus plan when it is completed and approved by our board of directors or compensation committee when established. In addition, pursuant to his employment agreement, Mr. Davidson is entitled to an initial grant of 50,000 shares of BioDrain common stock with an anti-dilution protection amounting to 3.81% of the fully-diluted outstanding common stock of the Company up to the completion of the first \$1,000,000 of new funding raised, which pursuant to an option agreement dated June 5, 2008 amending his employment agreement, Mr. Davidson chose to receive in options to purchase 543,292 options, exercisable at \$.01, in lieu of obtaining the shares to which he was entitled.

Mr. Davidson is also eligible for stock, stock options, deferred compensation, and life insurance, as approved by our board of directors or compensation committee when established, and reimbursements for all reasonable,



deductible and substantiated expenses, including, but not limited to, automobile mileage, telephone, cell phone, and expenses related to home office and business meetings. Mr. Davidson is entitled to a minimum of three weeks' vacation per year. In connection with the agreement, Mr. Davidson was granted a position on our board of directors with the option of submitting for board approval one nominee for Board membership.

We entered into an employment agreement with Gerald D. Rice, Chief Financial Officer and Secretary, on October 18, 2006. The term of the agreement is four years and is automatically renewable except by action of our board of directors. The agreement provides for an annual base salary of \$118,000 (payable beginning when cumulative new funding for the Company reaches \$250,000). Mr. Rice is eligible to participate in the Company's bonus plan when it is completed and approved by our board of directors or compensation committee when established.

Mr. Rice is also eligible for stock, stock options, deferred compensation, and life insurance, as approved by our board of directors or compensation committee when established, and reimbursements for all reasonable, deductible and substantiated expenses, including, but not limited to, automobile mileage, telephone, cell phone, and expenses related to home office and business meetings. Mr. Rice is entitled to a minimum of three weeks' vacation per year. In connection with the agreement, Mr. Rice was granted a continued position on our board of directors.

The following termination, change of ownership and cessation of business clauses apply to the employment agreements for Mr. Davidson and Mr. Rice, collectively referred to as "Employee":

We are entitled to terminate Employee's employment for "cause" at any time during the term of the Employee's employment and Employee may voluntarily resign from his employment with us at any time. For purposes of the agreements, termination for "cause" means termination for any of the following reasons:

- a. the continued noncompliance by the Employee with our directors' written instructions, directives or regulations, after fifteen (15) days' written notice of such noncompliance from us; a breach by the Employee of any material term of the employment agreement, which breach is not cured within seven (7) days of written notice thereof from us; unsatisfactory performance of employment duties, obligations and work and production standards that is not corrected within thirty (30) days after written notice of such unsatisfactory performance from us, or such longer period as specified in such notice;
- b. malfeasance, misfeasance, or nonfeasance by the Employee in the course of his employment;
- c. fraud or a criminal act committed by Employee, provided such criminal act adversely affects our business;
- d. any breach by Employee of his fiduciary duties and obligations to us or any act or omission of Employee constituting a breach of his obligations contained in the confidentiality and non-competition agreements entered into by and between the Company and the Employee; and
- e. the Employee's voluntary resignation at any time.

In the event of termination for cause, Employee is only entitled to receive payment of base salary, adjusted pro-rata to the date of termination, subject to offset, and to the extent permitted, for any amounts then owed to us by the Employee.

In the event the Employee is terminated by us without cause, Employee will be entitled to receive an amount equal to twelve (12) months of Employee's annual base salary for the year of termination, conditioned upon (i) the return to us in good condition any property owned by or belonging to us; (ii) Employee's disclosure of any passwords or procedures necessary for access to any computer software or program; and (iii) Employee's continued adherence to the confidentiality and non-competition agreements entered into by and between the Company and Employee for two (2) years from the date of termination.

In the case of any termination, the Employee's rights and obligations regarding stock options and shares of the Company's common stock owned by the Employee will be determined in accordance with and be governed by any shareholder agreement entered into by and between the Company and the Employee and the 2008 Stock Option Plan.

Employee may terminate this agreement for good reason and may also terminate without good reason by giving a notice of termination during the year immediately following a change in control of more than 40% of our outstanding common stock, with the exception of stock issued by us, provided that, with the exception of dilution, Employee is adversely affected by such change in control. In the case of termination for good reason or without good reason, Employee will be entitled to the same payments and benefits as if Employee was terminated by us without cause.

Upon the death or disability of the Employee, bonuses and other related benefits will be paid pro-rata for the year in which such event occurred. The employment agreements will remain in force in the event the Company is sold or if majority ownership passes from the existing majority shareholders. The employment agreements (and the confidentiality and non-competition agreements entered into by the Company and the Employee) will become null and void in the event the Company becomes insolvent or ceases business due to lack of funds.

We entered into an employment agreement with Chad A. Ruwe, Executive Vice President Operations, on June 16, 2008. Pursuant to the agreement, upon execution of an investment in the Company of \$200,000, we agreed to employ Mr. Ruwe for two years, with such term to be automatically renewable annually except by action of our President or board of directors. The agreement provides for an annual base salary of \$135,000. Pursuant to the agreement, Mr. Ruwe received a one-time signing bonus of \$15,000 and will be eligible to participate in the Company's bonus plan when it is completed and approved by our board of directors or compensation committee when established. Mr. Ruwe is eligible to receive stock options to purchase 250,000 shares of BioDrain common stock at \$.35 per share, which is governed by the 2008 Stock Option Plan. The options vest as follows: (i) 50,000 shares upon execution of the employment agreement; (ii) an additional 50,000 shares upon submission of the 510(k) to the FDA for approval of the FMS unit; (iii) an additional 50,000 shares upon approval of the 510(k) by the FDA; (iv) an additional 50,000 shares upon the sale of the first commercial-ready FMS unit; and (v) an additional 50,000 shares upon sale of the fiftieth commercial-ready FMS unit.

Mr. Ruwe is also eligible for stock, stock options, deferred compensation, and life insurance, as approved by our board of directors or compensation committee when established, and reimbursements for all reasonable, deductible and substantiated expenses, including, but not limited to, automobile mileage, telephone, cell phone, and expenses related to home office and business meetings. In addition, beginning as of the date of his employment agreement, Mr. Ruwe receives a monthly benefit amount of \$1,000 until a Company-sponsored medical benefits program is established. Mr. Ruwe is entitled to a minimum of three weeks' vacation per year. In connection with the agreement, Mr. Ruwe was granted a position on our board of directors.

Mr. Ruwe's employment agreement also provides that throughout his employment and for one (1) year thereafter, he shall not, for any reason, directly or indirectly, plan, organize, advise, own, manage, operate, control, be employed by, participate or be connected in any manner with the ownership, management or control of any business engaged in the development, marketing and sales of medical devices dedicated or designed to safely manage and dispose of contaminated fluids generated in the operating room and other similar locations. For the purposes of the agreement, indirect competition includes any activity in aid of a competing business such as being a partner, shareholder, officer, director, member, owner, manager, governor, agent, employee, advisor, consultant or independent contractor of any competing business. Furthermore, Mr. Ruwe's employment agreement provides that all rights, titles and interests of every kind and nature, whether currently known or unknown, in any "Intellectual Property" defined to include patent rights, trademarks, copyrights, ideas, creations and properties invented, created, written, developed, furnished, produced or disclosed by Mr. Ruwe in the course of his service to the Company, shall be and remain the sole and exclusive property of the Company and Mr. Ruwe shall have no right, title or interest therein or thereto or in and to any results and proceeds therefrom. Also under the agreement, subject to applicable Minnesota Statutes, Mr. Ruwe agreed to irrevocably assign to us, all worldwide rights, title and interest, in perpetuity, in respect of any and all rights he may have or acquired in the Intellectual Property, to waive any moral rights he may have or many obtain in the

Intellectual Property, and to assist us in every proper way to apply for, obtain, perfect and enforce rights in the Intellectual Property and to execute all documents for use in applying for, obtaining and perfecting such rights and enforcing the same as the Company may desire.

In addition, the following terms apply to the employment agreement for Mr. Ruwe, also referred to as "Employee":

We are entitled to terminate Employee's employment for "cause" at any time during the term of the Employee's employment. For purposes of Mr. Ruwe's employment agreement, for "cause" shall mean termination for any of the following reasons:

- a. the material noncompliance by Employee with written instructions, directions or regulations of our board of directors applicable to him, the breach of any material term of the agreement, or the unsatisfactory performance of his duties, obligations, work and production standards and the failure of Employee to correct such non-compliance, breach or performance within thirty (30) days after receipt by him of written notice of the same by us;
- b. any willful or grossly negligent act by Employee having the effect of materially injuring the Company, as determined by a majority vote of our board of directors (excluding Employee);
- c. the commission by Employee of fraud or a criminal act that adversely affects our business; or
- d. the determination by an affirmative vote of the majority of our board of directors (excluding Employee), after reasonable and good faith investigation by the Company following a written allegation by another Company employee that he engaged in some form of harassment or other improper conduct prohibited by law, unless such actions were specifically directed by our board.

In the event of termination for cause, Employee is only entitled to receive payment of base salary, adjusted pro-rata to the date of termination, subject to offset, and to the extent permitted, for any amounts then owed to us by the Employee. The Employee's rights and obligations regarding stock options and shares of the Company's common stock owned by the Employee will be determined in accordance with and be governed by any shareholder agreement entered into by and between the Company and the Employee and the 2008 Stock Option Plan, as well as taking into account the completion (or non-completion) of Mr. Ruwe's aforementioned milestones. Only stock options that have vested as a result of completed milestones are eligible for ownership by the Employee in the event of termination for cause.

In the event the Employee is terminated by us without cause, Employee will be entitled to receive an amount equal to twelve (12) months of Employee's annual base salary for the year of termination as well as bonus payments on a pro-rata basis for the portion of the year at termination, conditioned upon (i) the return to us in good condition any property owned by or belonging to us; and (ii) Employee's disclosure of any passwords or procedures necessary for access to any computer software or program. In lieu of a shareholders agreement, all non-vested stock options held by Mr. Ruwe shall immediately vest upon termination by us without cause and we will provide outplacement services, upon mutual agreement between the Employee and our President and Chief Executive Officer, for an amount of \$15,000 for one (1) year.

Employee may terminate his employment at any time for good reason. For the purposes of the agreement, "good reason" means (i) any material breach by us of the agreement that is not cured by us within thirty (30) days after receipt of written notice from Employee of such breach; (ii) any material diminution or adverse change to Employee of his duties, responsibilities, rights, or reporting relationships available to him before at the time of such diminution or change, without his consent, except as a result of termination by us for cause; (iii) any requirement from our board of directors that Employee must relocate his office outside the Twin Cities metropolitan area; or (iv) by Employee giving a notice of termination during the year immediately following a change in control of more than 40% of our outstanding common stock, except stock issued by us, provided that, with the exception of dilution, Employee is adversely affected by the change in control.

Employee may also terminate employment at any time for any reason with one (1) month notice and in such case, agrees to aid in transition and exit from the Company causing no harm or hardship during such transition. Employee is not eligible for salary continuation or bonus if he voluntarily resigns for reasons other than good reason.

Upon the death or disability of the Employee, bonuses and other related benefits will be paid pro-rata for the year in which such event occurred. The employment agreement will remain in force in the event the Company is sold or if majority ownership passes from the existing majority shareholders and in such case, all of Mr. Ruwe's non-vested stock options, whether the milestone has been achieved or not, shall become vested with the completion of the sale. The employment agreement and all the terms thereof will become null and void in the event the Company becomes insolvent or ceases business due to lack of funds.

#### **Compensation of Directors**

None of our directors received compensation during the fiscal year ended December 31, 2007. Lawrence Gadbow, Chairman of our board of directors, receives \$24,000 per year starting in September 2008 (\$2,000 per month) for his services as Chairman of the board of directors. He also receives \$2,000 per month in deferred compensation payments, which he accrued while serving as our President and Chief Executive Officer.

## Corporate Governance

We currently have four active non-employee members of the board of directors, Lawrence W. Gadbaw, Peter L. Morawetz, Thomas J. McGoldrick, and Andrew P. Reding, each of whom are considered independent directors, as defined in NASDAQ Marketplace Rule 4200.

### Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers and directors, and persons who beneficially own more than 10% of a registered class of our equity securities to file with the Securities and Exchange Commission initial statements of beneficial ownership, reports of changes in ownership and annual reports concerning their ownership of our common shares and other equity securities, on Forms 3, 4 and 5 respectively. Since prior to this offering, we did not have a class of equity securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, we were not required to file such forms with the Securities and Exchange Commission. Once we have a class of equity securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, we intend on filing all such forms in a timely manner and if not, to disclose any untimely filings in accordance with Item 405 Regulation S-K.

### Code of Ethics

In November 2008, our board of directors plans to adopt a Code of Ethics applicable to all of our officers, directors and employees.

## Certain Relationships and Related Transactions

Described below are certain transactions or series of transactions since inception between us and our executive officers, directors and the beneficial owners of 5% or more of our common stock, on an as converted basis, and certain persons affiliated with or related to these persons, including family members, in which they had or will have a direct or indirect material interest in an amount that exceeds the lesser of \$120,000 or 1% of the average of our total assets for the last three years, other than compensation arrangements that are otherwise required to be described under "Executive Compensation."

In September 2002, an oral agreement was made with director Peter Morawetz whereby he would provide sales, marketing and general administrative support to BioDrain for a fee of \$1,770 per month. The fees were accrued through August 2006 and totaled approximately \$83,200. Both Mr. Morawetz and BioDrain personnel have discussed reducing the total fees accrued to a lesser amount and intend to do so in the very near future.

In September 2007, three of our directors/executive officers, Lawrence Gadbaw, Gerald Rice and Kevin Davidson, agreed to waive a total of \$288,037 in accrued, unpaid salaries for the period September 2002 through June 2007 for a total reduction in payroll accruals of \$308,109 and Mr. Morawetz agreed to waive his consulting fees of \$83,193, all in exchange for 184,964 shares of the Company's common stock and options to purchase 468,683 shares of common stock at \$.52 per share. The options were to carry a three-year vesting period. Subsequently in December 2007, upon request from our funding brokers, we reduced accrued payroll liabilities by \$346,714 through November 2007. In exchange, Mr. Gadbaw and Mr. Rice were each granted options to purchase 160,000 shares of common stock and Mr. Davidson was granted options to purchase 80,000 shares of common stock, all at \$.35 per share. To date there has been no stock issuance from these grants. In addition, Mr. Rice will receive \$46,000 and Mr. Davidson will receive \$23,000 when we raise an additional \$3 million and Mr Gadbaw is currently receiving \$2,000 per month until a total of \$46,000 is paid. Negotiations with Mr. Morawetz have not yet been completed in connection with compensation for foregoing his consulting fee.

## Selling Security Holders

The following table sets forth the names of the selling shareholders who may sell their shares under this prospectus from time to time. No selling shareholder has, or within the past three years has had, any position, office or other material relationship with us or any of our predecessors or affiliates other than as a result of the ownership of our securities, except for Chad Ruwe, who is an officer of the Company.

The following table also provides certain information with respect to the selling shareholders' ownership of our securities as of November 1, 2008, the total number of securities they may sell under this prospectus from time to time, and the number of securities they will own thereafter assuming no other acquisitions or dispositions of our securities. The selling shareholders can offer all, some or none of their securities, thus we have no way of determining the number they will hold after this offering. Therefore, we have prepared the table below on the assumption that the selling shareholders will sell all shares covered by this prospectus.

Some of the selling shareholders may distribute their shares, from time to time, to their limited and/or general partners or managers, who may sell shares pursuant to this prospectus. Each selling shareholder may also transfer shares owned by him or her by gift, and upon any such transfer the donee would have the same right of sale as the selling shareholder.

We may amend or supplement this prospectus from time to time to update the disclosure set forth herein. None of the selling shareholders are or were affiliated with registered broker-dealers. See our discussion entitled "Plan of Distribution" for further information regarding the selling shareholders' method of distribution of these shares.

Name of Selling Shareholder	Number of Shares Owned Before Offering(1)	Number of Shares Underlying Warrants Owned Before Offering	Number of Shares Offered in this Offering(1)	Number of Shares Owned After Offering(2)	Percentage Owned After Offering(2)
Caron Partners LP(3)	246,500	100,000	246,500	0	0
Alan Topchik	200,000	100,000	200,000	0	0
Marc I. Abrams	57,142	28,571	57,142	0	0
Douglas J. Gold	232,142	28,571	232,142	0	0
Stuart A. Liner	142,858	71,429	142,858	0	0
Steven M. Gold and Sheila A. Gold	142,858	71,429	142,858	0	0
Tangiers Investors, L.P.(4)	285,714	142,857	285,714	0	0
Jerome M. Cowan	142,858	71,429	142,858	0	0
Jeremy Roll	68,573	40,001	68,573	0	0
Bernard Vosika and Twyla Vosika	142,858	71,429	142,858	0	0
Sally Maslon & Naomi Maslon JTWROS	57,142	28,571	57,142	0	0
Michael Sobeck	28,572	14,286	28,572	0	0
Cavalier Consulting Corp.(5)	142,858	71,429	142,858	0	0
RP Capital(6)	326,848	142,857	326,848	0	0
Brian Weitman	64,028	21,429	64,028	0	0
Bellajule Partners LP(7)	173,858	71,429	173,858	0	0
Morris Esquenazi	200,000	100,000	200,000	0	0
Carl I. Schwartz	1,000,000	500,000	1,000,000	0	0
Jack Farbman and Thelma Farbman	200,000	100,000	200,000	0	0
Morrie R. Rubin	100,000	50,000	100,000	0	0
Lee M. Terpstra and Orlando Stephenson	200,000	100,000	200,000	0	0
Bernard Puder Revocable Trust	860,000	430,000	860,000	0	0
Thomas J. Klas	142,858	71,429	142,858	0	0
Chad A. Ruwe	1,192,858	571,429	1,142,858	50,000(8)	*
Peter Abramowicz	114,286	57,143	114,286	0	0
Scott R. Storick	200,000	100,000	200,000	0	0
James R. Taylor, IV	1,142,858	571,429	1,142,858	0	0
Citigroup Global Markets Inc. as IRA Custodian FBO John D. Villas	142,858	71,429	142,858	0	0
Gregory B. Graves	85,714	42,857	85,714	0	0
James E. Dauwalter Living Trust dated 12/11/01(9)	1,142,858	571,429	1,142,858	0	0
Stan Geyer Living Trust dated 10/15/2001, as amended, Stan Geyer & Beverly Geyer, Trustees(10)	142,858	71,429	142,858	0	0
Fenton Fitzpatrick	17,142	8,571	17,142	0	0
Peter Persad	142,858	71,429	142,858	0	0
Nimish Patel(11)	503,602	45,595	503,602	0	0
Erick Richardson(12)	490,734	45,595	490,734	0	0
Core Fund Management, LP(13)	364,762	182,381	364,762	0	0
James Jensen(14)	364,762	182,381	364,762	0	0
Steve Andress(15)	72,952	36,476	72,952	0	0
Kendall Morrison(16)	72,952	36,476	72,952	0	0
Egavnit LLC(17)	196,092	91,191	196,092	0	0
Thomas Pronesti	38,821		38,821	0	0
Craig Kulman	38,821		38,821	0	0
Kulman IR LLC(18)	125,000		125,000	0	0
Cross Street Partners, Inc.(19)	125,000		125,000	0	0
Bill Glaser	250,000	125,000	250,000	0	0
Ryan Hong	57,404		57,404	0	0
Richardson & Patel, LLP(20)	60,714		60,714	0	0
Sean Fitzpatrick	150,000		150,000	0	0
David Baker	225,000		225,000	0	0
Si Phillips	50,000		50,000	0	0
Cameron Broumand	35,000		35,000	0	0

Sylvia Karayan	10,000		10,000	0	0
Jason Cavalier	15,000		15,000	0	0
Greg Suess	104,114		104,114	0	0
Ben Padnos	100,000		100,000	0	0
Mark Abdou	32,907		32,907	0	0
Addison Adams	8,227		8,227	0	0
Michael Cavalier	8,227		8,227	0	0
Mick Cavalier	8,227		8,227	0	0
Francis Chen	2,334		2,334	0	0
Doug Croxall	6,170		6,170	0	0
Jennifer & Michael Donahue	28,009		28,009	0	0
Dan Estrin	823		823	0	0
Kevin Friedmann	1,440		1,440	0	0
Sylvia Karayan	1,646		1,646	0	0
Abdul Ladha	4,114		4,114	0	0
Jody Samuels	8,227		8,227	0	0
Yossi Stern	10,284		10,284	0	0
Steve Yakubov	10,284		10,284	0	0
TOTAL	13,063,606	5,309,386	13,013,606	0	*



\* Less than 1% based on a total of 8,163,687 shares of common stock outstanding on November 1, 2008

- (1) Includes up to that number of shares of common stock issuable upon the exercise of a warrant listed in the selling security holder table.
- (2) Assumes that all shares will be resold by the selling shareholders after this offering.
- (3) The natural person with voting and dispositive powers for this stockholder is Beth Levine.
- (4) The natural person with voting and dispositive powers for this stockholder is Michael Sobeck.
- (5) The natural person with voting and dispositive powers for this stockholder is Jason Cavalier.
- (6) The natural persons with voting and dispositive powers for this stockholder are Nimish Patel and Erick Richardson.
- (7) The natural person with voting and dispositive powers for this stockholder is Donald Levine.

- (8) Includes 50,000 shares subject to exercise of options to purchase common stock. Excludes 200,000 shares subject to exercise of options to purchase common stock that become exercisable upon satisfaction of achievement of performance targets.
- (9) The natural person with voting and dispositive powers for this stockholder is James Dauwalter.
- (10) The natural persons with voting and dispositive powers for this stockholder are Stan Geyer and Beverly Geyer.
- (11) Includes 45,595 shares of common stock subject to conversion of a promissory note.
- (12) Includes 45,595 shares of common stock subject to conversion of a promissory note.
- (13) The natural person with voting and dispositive powers for this stockholder is David Baker. Includes 182,381 shares of common stock subject to conversion of a promissory note.
- (14) Includes 182,381 shares of common stock subject to conversion of a promissory note.
- (15) Includes 36,476 shares of common stock subject to conversion of a promissory note.
- (16) Includes 36,476 shares of common stock subject to conversion of a promissory note.
- (17) Includes 182,381 shares of common stock subject to conversion of a promissory note.
- (18) The natural person with voting and dispositive powers for this stockholder is Craig Kulman.
- (19) The natural person with voting and dispositive powers for this stockholder is Thomas Pronesti.
- (20) The natural person with voting and dispositive powers for this stockholder is Douglas Gold.

## Plan of Distribution

Each selling shareholder of the common stock and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock on the OTC Bulletin Board or any other stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. A selling shareholder may use any one or more of the following methods when selling shares, subject to applicable federal and state securities laws:

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

The selling shareholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

Broker-dealers engaged by the selling shareholders may arrange for other broker-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling shareholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated, but, except as set forth in a supplement to this prospectus, in the case of an agency transaction not in excess of a customary brokerage commission in compliance with FINRA Rule 2440, and in the case of a principal transaction a markup or markdown in compliance with FINRA IM-2440. The maximum commission or discount to be received by any Financial Industry Regulatory Authority ("FINRA") member or independent broker-dealer will not be greater than 8% for the sale of any securities included in the registration statement of which this prospectus is a part.

In connection with the sale of the common stock or interests therein, the selling shareholders may enter into hedging transactions with broker-dealers or other financial institutions, which may, subject to applicable federal state securities laws, in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling shareholders may also, in compliance with applicable federal and state securities laws, sell shares of the common stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The selling shareholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities that require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which

shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The selling shareholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be “underwriters” within the meaning of the Securities Act, in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Each selling shareholder has informed us that it does not have any written or oral agreement or understanding, directly or indirectly, with any person to distribute our common stock.

We are required to pay certain fees and expenses incurred by us incident to the registration of the shares. We have agreed to indemnify the selling shareholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

Because selling shareholders are deemed to be “underwriters” within the meaning of the Securities Act, they will be subject to the prospectus delivery requirements of the Securities Act, including Rule 172 thereunder. In addition, any securities covered by this prospectus that qualify for sale pursuant to Rule 144 under the Securities Act may be sold under Rule 144 rather than under this prospectus. There is no underwriter or coordinating broker acting in connection with the proposed sale of the resale shares by the selling shareholders.

We have agreed to use reasonable efforts to keep this registration statement continuously effective (the “Effective Period”) until the first anniversary of the effective date of this registration statement plus whatever period of time as shall equal any period, if any, during the Effective Period in which the Company was not current with our reporting requirements under the Exchange Act of 1934, as amended (the “Exchange Act”). The resale shares will be sold only through registered or licensed brokers or dealers if required under applicable state securities laws. In addition, in certain states, the resale shares may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the resale shares may not simultaneously engage in market making activities with respect to the common stock for the applicable restricted period, as defined in Regulation M, prior to the commencement of the distribution. In addition, the selling shareholders will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of shares of the common stock by the selling shareholders or any other person. We will make copies of this prospectus available to the selling shareholders and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale (including by compliance with Rule 172 under the Securities Act).

## Security Ownership of Certain Beneficial Owners and Management

The following tables set forth certain information regarding beneficial ownership of our securities as of November 1, 2008 by (i) each person who is known by us to own beneficially 5% or more of the Company's outstanding common stock, (ii) each of our directors, (iii) each of our named executive officers, and (iv) all of our directors and executive officers as a group. We have determined beneficial ownership in accordance with the rules of the Securities and Exchange Commission. Under these rules, beneficial ownership generally includes voting or investment power over securities. A person (or group of persons) is deemed to be the "beneficial owner" of our securities if he or she, directly or indirectly, has or shares the power to vote or to direct the voting of, or to dispose or direct the disposition of such securities. Accordingly, more than one person may be deemed to be the beneficial owner of the same security. Unless otherwise indicated, the persons named in the table below have sole voting and/or investment power with respect to the number of shares of common stock indicated as beneficially owned by them. A person is also deemed to be a beneficial owner of any security, which that person has the right to acquire within 60 days, such as options or warrants to purchase shares of our common stock. Beneficial ownership and percentage ownership are based on 8,163,687 shares of common stock outstanding as of November 1, 2008. Unless otherwise stated, the address of our directors and executive officers is c/o BioDrain Medical, Inc., 2060 Centre Pointe Boulevard, Suite 7, Mendota Heights, Minnesota 55120.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Lawrence W. Gadbaw (1)	139,563	1.7%
Kevin R. Davidson (2)	573,219	6.6%
Gerald D. Rice (3)	84,994	1.0%
Chad A. Ruwe (4)	621,429	7.6%
Peter L. Morawetz (5)	107,739	1.3%
Thomas J. McGoldrick (6)	23,942	*0%
Andrew P. Reding (7)	23,942	*0%
Carl Schwartz (8)	500,000	6.1%
Bernard Puder Revocable Trust (9)	430,000	5.3%
James Dauwalter Living Trust (10)	571,429	7.0%
James Taylor III (11)	571,479	7.0%
Nimish Patel (12)	600,863	7.2%
Erick Richardson (13)	587,995	7.3%
<b>All directors and executive officers as a group (7 persons)</b>	<b>1,574,828</b>	<b>17.9%</b>

\* Less than one percent

- (1) Includes 139,563 shares of common stock. Mr. Gadbow does not currently have any options to acquire additional shares of common stock of the Company.
- (2) Includes (i) 29,927 shares of common stock and (ii) options to acquire up to an additional 543,292 shares of common stock of the Company, all of which are presently exercisable.
- (3) Includes 84,994 shares of common stock. Mr. Rice does not currently have any options to acquire additional shares of common stock of the Company.
- (4) Includes 571,429 shares of common stock and options to acquire up to an additional 50,000 shares of common stock that are presently exercisable. Does not include (i) 571,429 shares of common stock underlying warrants that are not exercisable within 60 days and (ii) options to purchase 200,000 shares of common stock that are not exercisable until achievement of certain performance targets as provided for in Mr. Ruwe's employment agreement.
- (5) Includes 107,739 shares of common stock. Mr. Morawetz does not currently have any options to acquire additional shares of common stock of the Company.
- (6) Includes options to acquire up to 23,942 shares of common stock, which are presently exercisable, granted pursuant to a director stock option agreement by and between Mr. McGoldrick and the Company.
- (7) Includes options to acquire up to 23,942 shares of common stock, which are presently exercisable, granted pursuant to a director stock option agreement by and between Mr. Reding and the Company.
- (8) Includes 500,000 shares of common stock. Does not include 500,000 shares of common stock underlying warrants that are not exercisable within 60 days.
- (9) Includes 430,000 shares of common stock. Does not include 430,000 shares of common stock underlying warrants that are not exercisable within 60 days.
- (10) Includes 571,429 shares of common stock. Does not include 571,479 shares of common stock underlying warrants that are not exercisable within 60 days.
- (11) Includes 571,479 shares of common stock. Does not include 571,479 shares of common stock underlying warrants that are not exercisable within 60 days.
- (12) Includes 503,602 shares of common stock and, 45,595 shares of common stock underlying convertible notes. Also includes 142,857 shares of common stock held by RP Capital LLC, for which Nimish Patel and Erick Richardson have shared voting and dispositive control. Does not include 60,714 shares of common stock held by Richardson & Patel LLP. The voting and dispositive control of such shares are held by Mr. Douglas Gold. Mr. Patel does not currently have any options to acquire additional shares of common stock of the Company.
- (13) Includes 490,734 shares of common stock and, 45,595 shares of common stock underlying convertible notes. Also includes 142,857 shares of common stock held by RP Capital LLC, for which Nimish Patel and Erick Richardson have shared voting and dispositive control. Does not include 60,714 shares of common stock held by Richardson & Patel LLP. The voting and dispositive control of such shares are held by Mr. Douglas Gold. Mr. Richardson does not currently have any options to acquire additional shares of common stock of the Company.

**General**

We are authorized to issue only one class of shares, which is designated as common stock. On October 20, 2008, our board of directors approved a resolution to increase the total number of shares of common stock that we are authorized to issue from 11,970,994 to 40,000,000 with \$0.01 par value per share. Our board of directors plans to schedule a shareholders' meeting in November 2008 at which the shareholders of the Company will vote to approve the recommended increase in authorized shares.

**Common Stock**

The securities being offered by the selling shareholders are shares of our common stock. Prior to this offering there has been no public or private trading market for our common stock and there will be no such trading market until our common stock is approved for quotation on the OTC Bulletin Board. As of November 1, 2008, there were issued and outstanding 8,163,687 shares of common stock that were held of record by 88 shareholders.

The holders of common stock are entitled to one vote per share on all matters to be voted upon by the shareholders; provided that no proxy shall be voted if executed more than one year prior to the date of the stockholders' meeting except as may otherwise be provided by our board of directors from time to time. Only stockholders of record at the close of business on day twenty prior to the date of the meeting are entitled to vote at the stockholders' meeting. Holders of our common stock do not have cumulative voting rights.

The holders of common stock are entitled to receive ratably any dividends that may be declared from time to time by our board of directors out of funds legally available for that purpose. In the event of our liquidation, dissolution or winding up, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities. The common stock has no preemptive or conversion rights or other subscription rights and there are no redemption provisions applicable to our common stock. All outstanding shares of common stock are fully paid and non-assessable, and the shares of common stock offered in this offering will be fully paid and not liable for further call or assessment.

Except for directors, who are elected by receiving the highest number of affirmative votes of the shares entitled to be voted for them, or as otherwise required by Minnesota law, and subject to the rights of the holders of preferred stock then outstanding (if any), all shareholder action is taken by the vote of a majority of the issued and outstanding shares of common stock present at a meeting of shareholders at which a quorum consisting of a majority of the issued and outstanding shares of common stock is present in person or proxy. In the absence of a quorum for the transaction of business, any meeting may be adjourned from time to time. The stockholders present at a duly called or held meeting may continue to do business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum. The Company's President or, in his absence, the Vice-President or any other person designated from time to time by the board of directors, shall preside at all meetings of stockholders.

**Warrants and Convertible Notes**

As of November 1, 2008, there were outstanding warrants to purchase 5,309,386 shares of our common stock, comprised of 620,096 warrants exercisable at a price of \$0.35 per share, issued in conjunction with a bridge loan we undertook in July 2007, and 4,689,290 warrants exercisable at a price of \$0.46 per share, issued in conjunction with the private offering we completed in August 2008. These warrants are immediately exercisable. If there is no effective registration statement registering the underlying shares by August 31, 2009, these warrants contain cashless exercise provisions that allow the holder to exercise the warrant for a lesser number of shares of common stock in lieu of paying cash. The number of shares that would be issued in this case would be based upon the market price of the common stock at the time of the net exercise, or if there is no market price, the price per share as determined by mutual agreement of the Company and the holder. As of November 1, 2008, there were other outstanding warrants to purchase 557,191 shares of our common stock at exercise prices ranging from \$.02 to \$3.34 per share.

There are also outstanding convertible notes to purchase 620,096 shares of our common stock at an exercise price of \$.35 per share, which were issued in conjunction with the bridge loan we undertook in July 2007. The convertible notes total \$170,000 and are held by seven holders. The notes are made up of 620,096 shares of common stock and 620,096 shares of common stock underlying warrants granted in connection therewith. The notes bear no interest rate and have passed their original maturity date of April 2008. If there is no effective registration statement registering the underlying shares by within 180 days of the closing of the August 2008 private placement offering, these notes contain certain monetary penalties imposed upon the Company.

The exercise price and the number of shares issuable upon exercise of all the above-referenced warrants will be adjusted upon the occurrence of certain events, including reclassifications, reorganizations or combinations of the common stock. At all times that the warrants are outstanding, we will authorize and reserve at least that number of shares of common stock equal to the number of shares of common stock issuable upon exercise of all outstanding warrants.

### **Stock Options**

As of November 1, 2008, there were employment agreements and director stock option agreements outstanding with options to purchase 891,176 shares of common stock with various vesting periods and amounts. We have 975,405 shares reserved for issuance under the 2008 Equity Incentive Plan.

### **Dividends**

We have never paid dividends and do not currently intend to pay any dividends on our common stock in the foreseeable future. Instead, we anticipate that any future earnings will be retained for the development of our business. Any future determination relating to dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including, but not limited to, our financial condition, operating results, cash needs, growth plans, the terms of any credit agreements that we may be a party to at the time and the Minnesota Business Corporations Act, which provides that dividends are only payable out of surplus or current net profits.

### **Registration Rights**

Under the Registration Rights Agreement entered into in connection with the August 2008 financing with certain accredited and institutional investors (the "Investors"), we are obligated to register the following securities beneficially owned by the Investors to permit the offer and resale from time to time of such securities: (i) all of the common stock issued or issuable upon the conversion of shares of common stock (including the shares underlying the warrants we issued in conjunction with our private placement financing) acquired from the Company pursuant to a Subscription Agreement entered into between the Investors and the Company; and (ii) any securities issued or issuable directly or indirectly with respect to the securities referred to in (i) by way of stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization.

### **Anti-Takeover Effects of Certain Provisions of Minnesota Law**

Certain provisions of Minnesota law described below could have an anti-takeover effect. These provisions are intended to provide management flexibility, to enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by our board of directors and to discourage an unsolicited takeover if our board of directors determines that such a takeover is not in our best interests or the best interests of our shareholders. However, these provisions could have the effect of discouraging certain attempts to acquire us that could deprive our shareholders of opportunities to sell their shares of our stock at higher values.

Section 302A.671 of the Minnesota Business Corporation Act applies, with certain exceptions, to any acquisitions of our stock (from a person other than us, and other than in connection with certain mergers and exchanges to which we are a party) resulting in the beneficial ownership of 20% or more of the voting stock then outstanding.



Section 302A.671 requires approval of any such acquisition by a majority vote of our shareholders prior to its consummation. In general, shares acquired in the absence of such approval are denied voting rights and are redeemable by us at their then-fair market value within 30 days after the acquiring person has failed to give a timely information statement to us or the date the shareholders voted not to grant voting rights to the acquiring person's shares.

Section 302A.673 of the Minnesota Business Corporation Act generally prohibits any business combination by us, or any of our subsidiaries, with an interested shareholder, which means any shareholder that purchases 10% or more of our voting shares within four years following such interested shareholder's share acquisition date, unless the business combination is approved by a committee of all of the disinterested members of our board of directors before the interested shareholder's share acquisition date.

## Disclosure of Commission Position of Indemnification for Securities Act Liabilities

We are a Minnesota corporation and certain provisions of the Minnesota Statutes and our Bylaws provide for indemnification of our officers and directors against liabilities which they may incur in such capacities. A summary of the circumstances in which indemnification is provided is discussed below, but this description is qualified in its entirety by reference to our Bylaws and to the statutory provisions.

Section 302A.521, Subd. 2 of the Minnesota Statutes requires a corporation to indemnify a person made or threatened to be made a party to a proceeding by reason of the former or present official capacity of the person against judgments, penalties, fines, including, without limitation, excise taxes assessed against the person with respect to an employee benefit plan, settlements, and reasonable expenses, including attorneys' fees and disbursements, incurred by the person in connection with the proceeding, if, with respect to the acts or omissions of the person complained of in the proceeding, the person:

- (1) has not been indemnified by another organization or employee benefit plan for the same judgments, penalties, fines, including, without limitation, excise taxes assessed against the person with respect to an employee benefit plan, settlements, and reasonable expenses, including attorneys' fees and disbursements, incurred by the person in connection with the proceeding with respect to the same acts or omissions;
- (2) acted in good faith;
- (3) received no improper personal benefit and Section 302A.255, if applicable, has been satisfied;
- (4) in the case of a criminal proceeding, had no reasonable cause to believe the conduct was unlawful; and
- (5) in the case of acts or omissions occurring in the person's performance in the official capacity of director or, for a person not a director, in the official capacity of officer, board committee member or employee, reasonably believed that the conduct was in the best interests of the corporation or, in the case of performance by a director, officer or employee of the corporation involving service as a director, officer, partner, trustee, employee or agent of another organization or employee benefit plan, reasonably believed that the conduct was not opposed to the best interests of the corporation. If the person's acts or omissions complained of in the proceeding relate to conduct as a director, officer, trustee, employee, or agent of an employee benefit plan, the conduct is not considered to be opposed to the best interests of the corporation if the person reasonably believed that the conduct was in the best interests of the participants or beneficiaries of the employee benefit plan

Section 302A.521 Subd. 2 further provides that the termination of a proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent does not, of itself, establish that the person did not meet the criteria set forth in this subdivision.

In addition, Section 302A.521, Subd. 3, requires that if a person is made or threatened to be made a party to a proceeding, the person is entitled, upon written request to the corporation, to payment or reimbursement by the corporation of reasonable expenses, including attorneys' fees and disbursements, incurred by the person in advance of the final disposition of the proceeding, (a) upon receipt by the corporation of a written affirmation by the person of a good faith belief that the criteria for indemnification set forth in Section 302A.521, Subd. 2 have been satisfied and a written undertaking by the person to repay all amounts so paid or reimbursed by the corporation, if it is ultimately determined that the criteria for indemnification have not been satisfied, and (b) after a determination that the facts then known to those making the determination would not preclude indemnification under this section. The written undertaking required by clause (a) is an unlimited general obligation of the person making it, but need not be secured and shall be accepted without reference to financial ability to make the repayment.

Section 302A.521 Subd. 4 provides that the articles of incorporation or bylaws of a corporation either may prohibit indemnification or advances of expenses otherwise required by Section 302A.521 or may impose conditions on indemnification or advances of expenses in addition to the conditions contained in Subd. 2 and 3 including, without

limitation, monetary limits on indemnification or advances of expenses, if the prohibition or conditions apply equally to all persons or to all persons within a given class. A prohibition or limit on indemnification or advances may not apply to or affect the right of a person to indemnification or advances of expenses with respect to any acts or omissions of the person occurring prior to the effective date of a provision in the articles of incorporation or the date of adoption of a provision in the corporation's bylaws establishing the prohibition or limit on indemnification or advances.

Section 302A.521 Subd. 5 provides that Section 302A.521 does not require, or limit the ability of a corporation to reimburse expenses, including attorneys' fees and disbursements, incurred by a person in connection with an appearance as a witness in a proceeding at a time when the person has not been made or threatened to be made a party to a proceeding

Section 302A.521 Subd. 6 further provides that:

(a) all determinations whether indemnification of a person is required because the criteria set forth in Subd. 2 have been satisfied and whether a person is entitled to payment or reimbursement of expenses in advance of the final disposition of a proceeding as provided in Subd. 3 shall be made:

- (1) by the board by a majority of a quorum, if the directors who are at the time parties to the proceeding are not counted for determining either a majority or the presence of a quorum;
- (2) if a quorum under clause (1) cannot be obtained, by a majority of a committee of the board, consisting solely of two or more directors not at the time parties to the proceeding, duly designated to act in the matter by a majority of the full board including directors who are parties;
- (3) if a determination is not made under clause (1) or (2), by special legal counsel, selected either by a majority of the board or a committee by vote pursuant to clause (1) or (2) or, if the requisite quorum of the full board cannot be obtained and the committee cannot be established, by a majority of the full board including directors who are parties;
- (4) if a determination is not made under clauses (1) to (3), by the affirmative vote of the shareholders required by Section 302A.437 of the Minnesota Statutes, but the shares held by parties to the proceeding must not be counted in determining the presence of a quorum and are not considered to be present and entitled to vote on the determination; or
- (5) if an adverse determination is made under clauses (1) to (4) or under paragraph (b), or if no determination is made under clauses (1) to (4) or under paragraph (b) within 60 days after (i) the later to occur of the termination of a proceeding or a written request for indemnification to the corporation or (ii) a written request for an advance of expenses, as the case may be, by a court in this state, which may be the same court in which the proceeding involving the person's liability took place, upon application of the person and any notice the court requires. The person seeking indemnification or payment or reimbursement of expenses pursuant to this clause has the burden of establishing that the person is entitled to indemnification or payment or reimbursement of expenses.

(b) With respect to a person who is not, and was not at the time of the acts or omissions complained of in the proceedings, a director, officer, or person possessing, directly or indirectly, the power to direct or cause the direction of the management or policies of the corporation, the determination whether indemnification of this person is required because the criteria set forth in Subd. 2 have been satisfied and whether this person is entitled to payment or reimbursement of expenses in advance of the final disposition of a proceeding as provided in Subd. 3 may be made by an annually appointed committee of the board, having at least one member who is a director. The committee shall report at least annually to the board concerning its actions.

Section 302A.521 Subd 7 allows a corporation to purchase and maintain insurance on behalf of a person in that person's official capacity against any liability asserted against and incurred by the person in or arising from that capacity, whether or not the corporation would have been required to indemnify the person against the liability under the provisions of section 302A.521 of the Minnesota Statutes.

Section 302A.521 Subd. 8 requires a corporation that indemnifies or advances expenses to a person in accordance with Section 302A.521 in connection with a proceeding by or on behalf of the corporation to report to the shareholders in writing the amount of the indemnification or advance and to whom and on whose behalf it was paid not later than the next meeting of shareholders.

Section 302A.521 Subd. 9 provides that nothing in Section 302A.521 shall be construed to limit the power of the corporation to indemnify persons other than a director, officer, employee, or member of a committee of the board of the corporation by contract or otherwise.

Pursuant to our Bylaws, we may indemnify our directors and executive officers to the fullest extent not prohibited by any applicable law; provided, however, that we may modify the extent of such indemnification by individual contracts with our directors and executive officers; and, provided, further, that we shall not be required to indemnify any director or executive officer in connection with any proceeding (or part thereof) initiated by such person unless: (i) such indemnification is expressly required to be made by law; (ii) the proceeding was authorized by our Board of Directors; or (iii) such indemnification is provided by the Company, in our sole discretion, pursuant to the powers vested in the Company under any applicable law. We shall have the power to indemnify our other officers, employees and other agents as set forth in any other applicable law. Our Board of Directors shall have the power to delegate the determination of whether indemnification shall be given to any such person to such officers or other persons as our board of directors shall determine.

In addition, our Bylaws provide that we will advance to any person who was or is a party to a threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director or executive officer, of the Company, prior to the final disposition of the proceeding, promptly following request therefore, all expenses incurred by any director or executive officer in connection with such proceeding; provided, however, that the advancement of expenses shall be made only upon delivery to the Company of an undertaking by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified for such expenses. Notwithstanding the foregoing, unless otherwise determined, no advance shall be made by the Company to an officer of the Company (except by reason of the fact that such officer is or was a director of the Company in which event this paragraph shall not apply) in any action, suit or proceeding, whether civil, criminal, administrative or investigative, if a determination is reasonably and promptly made: (i) by a majority vote of directors who are not parties to the proceeding; (ii) by a committee of such directors designated by a majority vote of such directors; or (iii) if there are no such directors, or such directors so direct, by a written opinion from independent legal counsel, that the facts known to the decision making party at the time such determination is made demonstrate clearly and convincingly that such person acted in bad faith or in a manner that such person did not believe to be in the best interests of the Company.

Our Bylaws also provide that without the necessity of entering into an express contract, all rights to indemnification and advances to our directors and executive officers shall be deemed to be contractual rights and to be effective to the same extent and as if provided for in a contract between the Company and the director or executive officer. Any right to indemnification or advances granted to a director or executive officer shall be enforceable by or on behalf of the person holding such right in any court of competent jurisdiction if: (i) the claim for indemnification or advances is denied, in whole or in part; or (ii) no disposition of such claim is made within ninety (90) days of request therefore. The claimant in such enforcement action, if successful, shall be entitled to be paid also the expense of prosecuting the claim. In connection with any claim for indemnification, the Company shall be entitled to raise as a defense to any such action that the claimant has not met the standards of conduct that make it permissible under applicable law for the Company to indemnify the claimant for the amount claimed. In connection with any claim by an executive officer of the Company (except in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such executive officer is or was a director of the Company) for advances, the Company shall be entitled to raise a defense as to any such action clear and convincing evidence that such person acted in bad faith or in a manner that such person did not believe to be in the best interests of the Company, or with respect to any criminal action or proceeding that such person acted without reasonable cause to believe that his conduct was lawful. A determination by the Company (including the board of directors, independent legal counsel or the

stockholders) that indemnification of the claimant is proper because he has met the applicable standard of conduct or that the claimant has not met such applicable standard of conduct shall not be a defense to the action nor shall it create a presumption that claimant has not met the applicable standard of conduct.

## Where You Can Find More Information

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the common stock being offered in this offering. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules filed as part of the registration statement. For further information with respect to us and our common stock, we refer you to the registration statement and the exhibits and schedules filed as a part of the registration statement. Statements contained in this prospectus concerning the contents of any contract or any other document are not necessarily complete. If a contract or document has been filed as an exhibit to the registration statement, we refer you to the copy of the contract or document that has been filed. Each statement in this prospectus relating to a contract or document filed as an exhibit is qualified in all respects by the filed exhibit. The reports and other information we file with the SEC can be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington D.C. 20549, on official business days during the hours of 10 a.m. to 3 p.m. Copies of these materials can be obtained at prescribed rates from the Public Reference Section of the SEC at the principal offices of the SEC, 100 F Street, N.E., Washington D.C. 20549. You may obtain information regarding the operation of the public reference room by calling 1(800) SEC-0330. The SEC also maintains a website (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

After this offering, we will be subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934, as amended, and we intend to file periodic reports and other information with the Securities and Exchange Commission. We are not required by these requirements to deliver an annual report to our shareholders and, due to the cost involved, it is not likely that we will deliver an annual report with audited financial statements to our shareholders.

## Experts

Olsen Thielen & Company, Ltd., our independent registered public accounting firm, audited our financial statements at December 31, 2007 and December 31, 2006, as set forth in their report. We have included our financial statements and financial information in this prospectus and elsewhere in this registration statement in reliance on the report of Olsen Thielen & Company, Ltd. given on their authority as experts in accounting and auditing.

### Legal Matters and Interests of Named Experts

Richardson & Patel LLP has given us an opinion relating to the due issuance of the common stock being registered. The law firm of Richardson & Patel, LLP (“R & P”) owns 60,714 shares of our common stock. Nimish Patel, a principal of R & P, holds 412,411 shares of our common stock, 45,595 shares underlying certain convertible notes, and 45,595 shares underlying certain warrants. Erick Richardson, another principal of R & P, holds 399,543 shares of our common stock, 45,595 shares underlying certain convertible notes, and 45,595 shares underlying certain warrants. RP Capital, a limited liability company owned by Mr. Richardson and Mr. Patel, holds 142,857 shares of our common stock and warrants to purchase 142,857 shares of our common stock. Other R & P employees beneficially own 260,975 shares of our common stock and warrants to purchase 28,571 shares of our common stock.

## Financial Information

The unaudited interim financial statements for the periods ended June 30, 2008 and June 30, 2007 and for the period from April 23, 2002 (inception) to June 30, 2008 and the audited financial statements for the fiscal years ended December 31, 2007 and December 31, 2006 and for the period from April 23, 2002 (inception) to December 31, 2007 commence on the following page.



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**BioDrain Medical, Inc.**  
**(A Development Stage Company)**  
**Interim Financial Statements**  
**June 30, 2008**  
**(Unaudited)**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the use in this Registration Statement on Form S-1 of our audit report, dated August 12, 2008, relating to the financial statements of BioDrain Medical, Inc. appearing in the Prospectus which are a part of this Registration Statement. We also consent to the reference to our Firm under captions "Experts" in the Prospectus.

Olsen, Thielen & Co. Ltd.

St. Paul, Minnesota  
November 12, 2008

**BIODRAIN MEDICAL, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**BALANCE SHEET**  
**SIX MONTHS ENDED JUNE 30, 2008 AND 2007 AND**  
**YEAR ENDED DECEMBER 31, 2007**

	June 30, 2008	December 31, 2007	June 30, 2007
	(Unaudited)	(Audited)	(Unaudited)
<b><u>ASSETS</u></b>			
Current assets:			
Cash	\$ 349,341	\$ 4,179	\$ 566
Prepaid expenses	15,850	4,558	1,294
Other current assets	163,333	—	—
Total current assets	<u>528,524</u>	<u>8,737</u>	<u>1,860</u>
Intangibles, net	118,220	113,056	83,307
Total assets	<u>\$ 646,744</u>	<u>\$ 121,793</u>	<u>\$ 85,167</u>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</u></b>			
Current liabilities:			
Current portion of long-term debt	\$ 185,800	\$ 203,800	\$ 25,800
Accounts payable	250,825	207,657	92,333
Accrued expenses	289,939	226,429	471,678
Notes payable	10,000	10,000	25,073
Total current liabilities	<u>736,564</u>	<u>647,886</u>	<u>614,884</u>
Long-term debt	132,617	136,508	142,100
Stockholders' equity (deficit):			
Common stock \$0.01 par value; 11,970,994 shares authorized; 3,644,524; 1,375,105 and 1,375,105 shares issued	36,445	13,761	13,761
Additional paid-in capital	1,031,523	112,309	108,400
Deficit accumulated during development stage	(1,290,406)	(788,671)	(793,978)
Total stockholders' equity (deficit)	<u>(222,438)</u>	<u>(662,601)</u>	<u>(671,817)</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 646,744</u>	<u>\$ 121,793</u>	<u>\$ 85,167</u>

See accompanying notes to financial statements.

**BIODRAIN MEDICAL, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**STATEMENT OF OPERATIONS**  
**SIX MONTHS ENDED JUNE 30, 2008 AND 2007 AND**  
**YEAR ENDED DECEMBER 31, 2007 AND**  
**PERIOD FROM APRIL 23, 2002 (INCEPTION) TO JUNE 30, 2008**

	For the Six Months Ended June 30, 2008	For the Year Ended December 31, 2007	For the Six Months Ended June 30,	For the Period From April 23, 2002 (Inception) To June 30,
			2007	2008
	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)
Operating expenses	\$ 494,734	\$ 126,684	\$ 154,298	\$ 1,229,880
Interest expense	7,001	33,238	10,931	60,526
Net loss	\$ 501,735	\$ 159,922	\$ 165,229	\$ 1,290,406

See accompanying notes to financial statements.

**BIODRAIN MEDICAL, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)**  
**PERIOD FROM APRIL 23, 2002 (INCEPTION) TO JUNE 30, 2008**

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Issuance of common stock	4,196,962	\$ 41,969	\$ 881,235	\$ (788,671)	\$ 134,533
Reverse stock split 6/6/08 1.670705	(552,438)	\$ (5,524)	\$ 5,524	\$	\$
Vested stock options and warrants	—	—	144,764	—	144,764
Net loss				(1,290,406)	(1,290,406)
<b>Balance on June 30, 2008 (Unaudited)</b>	<b>3,644,524</b>	<b>\$ 36,445</b>	<b>\$ 1,031,523</b>	<b>\$ (1,290,406)</b>	<b>\$ (1,145,642)</b>

See accompanying notes to financial statements.

**BIODRAIN MEDICAL, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**STATEMENTS OF CASH FLOWS**  
**SIX MONTHS ENDED JUNE 30, 2008**  
**YEAR ENDED DECEMBER 31, 2007 AND**  
**PERIOD FROM APRIL 23, 2002 (INCEPTION) TO JUNE 30, 2008**

	For the Six Months Ended June 30, 2008 (Unaudited)	For the Year Ended December 31, 2007 (Audited)	For the Period From April 23, 2002 (Inception) To June 30, 2008 (Unaudited)
<b>Cash flows from operating activities:</b>			
Net loss	\$ (501,735)	\$ (159,922)	\$ (1,290,406)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>			
Amortization	—	47	350
Vested stock options and warrants	117,365	10,962	144,764
<b>Changes in assets and liabilities:</b>			
Prepaid expenses	(11,292)	(4,287)	(15,850)
Other assets	(163,333)	—	(163,333)
Accounts payable	43,169	127,125	250,826
Note payable to shareholder	—	(10,973)	(10,973)
Accrued expenses	63,509	(187,092)	289,938
Net cash used in operating activities	<u>(452,317)</u>	<u>(224,140)</u>	<u>(794,684)</u>
<b>Cash flows from investing activities:</b>			
Purchases of intangibles	(5,164)	(46,092)	(118,570)
Net cash used in investing activities	<u>(5,164)</u>	<u>(46,092)</u>	<u>(118,570)</u>
<b>Cash flows from financing activities:</b>			
Proceeds on long-term debt	—	274,000	421,505
Principal payments on long-term debt	(21,891)	(1,592)	(82,115)
Issuance of common stock	824,534	1,000	923,205
Net cash provided by financing activities	<u>802,643</u>	<u>273,408</u>	<u>1,262,595</u>
Net increase in cash and cash equivalents	345,162	3,176	349,341
Cash at beginning of year	4,179	1,003	—
Cash at end of year	<u>\$ 349,341</u>	<u>\$ 4,179</u>	<u>\$ 349,341</u>

See accompanying notes to financial statements.

**BIODRAIN MEDICAL, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

BioDrain Medical, Inc. was incorporated under the laws of the State of Minnesota in 2002. The Company is developing an environmentally safe system for the collection and disposal of infectious fluids that result from surgical procedures and post-operative care.

**Accounting Estimates**

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Intangible Assets**

Intangible assets consist of patent costs. These assets are not subject to amortization until the property patented is in production. The assets are reviewed for impairment annually, and impairment losses, if any, are charged to operations when identified. No impairment losses have been identified by management.

**Income Taxes**

Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The major temporary differences are the net operating losses. Due to historical losses on the accrual basis the related deferred tax assets are not recorded in the financial statements.

**Research and Development**

Research and development costs are charged to operations as incurred. Research and development costs were \$91,400 and \$400 for the six months ended June 30, 2008 and 2007, respectively.

**NOTE 2 – DEVELOPMENT STAGE OPERATIONS**

The Company was formed April 23, 2002. Since inception to June 30, 2008, 3,644,524 shares have been issued between par value and \$1.67. Operations since incorporation have been devoted to raising capital, obtaining financing, development of the Company's product, and administrative services.

**NOTE 3 – STOCK OPTIONS AND WARRANTS**

The Company has a stock option plan, which allows issuance of both incentive and non-qualified stock options to employees, directors and consultants of the Company, where permitted under the plan. The exercise price for each stock option is determined by the board of directors. Vesting requirements are determined by the board of directors when granted and currently range from immediate to three years. Options under this plan have terms varying from three to seven years.

The Company was required to adopt the provisions of FASB Statement No. 123R, *Share-Based Payment*



**BIODRAIN MEDICAL, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**

(SFAS 123R) effective January 1, 2006. As permitted by SFAS No. 123R, the Company accounts for stock option awards using the calculated value method. The Company opted for early adoption of the provisions of SFAS 123R.

The provisions of SFAS No. 123R are applicable to stock options awarded by the Company beginning in 2005. Under SFAS No. 123R, the Company is required to recognize compensation expense for options granted in 2005 and thereafter.

The Company has elected to use the Black-Scholes-Merton option pricing model. The fair value of these options was calculated using a risk-free interest rate of 3.49% to 5.07%, an expected life of 5 years and an expected volatility and dividend rate of 0%. Compensation expense recognized in the financial statements was \$117,365 and \$7,053 for June 30, 2008 and 2007, respectively.

The following summarizes transactions for stock options and warrants for the periods indicated:

	Stock Options (1)		Warrants (1)	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding at December 31, 2005	17,956	\$ 1.67	20,949	\$ 2.62
Issued	23,942	1.67	71,826	0.85
Outstanding at December 31, 2006	41,898	\$ 1.67	92,775	\$ 1.25
Issued	—	—	28,503	0.58
Outstanding at December 31, 2007	41,898	\$ 1.67	121,278	\$ 1.09
Issued	5,985	0.58	2,588,056	0.46
Outstanding at June 30, 2008	47,883	\$ 1.53	2,709,334	0.49

(1) Adjusted for the reverse stock split in total at June 30, 2008.

At June 30, 2008, 29,926 stock options are fully vested and currently exercisable. 2,709,334 warrants are fully vested and exercisable.

The following summarizes the status of options and warrants outstanding at June 30, 2008:

Range of Exercise Prices	Shares	Weighted Average Remaining Life
<b>Options</b>		
\$1.67	41,898	3.44
\$0.58	5,985	4.37
<b>Warrants</b>		
\$0.02	71,826	5.95
\$0.58	28,502	3.67
\$0.46	2,552,143	2.95
\$1.67	44,892	3.19
\$3.34	11,971	0.30

**BIODRAIN MEDICAL, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**

Stock options and warrants expire on various dates from October 2008 to December 2013.

In October 2007, the exercise price on the \$2.00 warrants changed to \$2.25 in accordance with the common stock warrant purchase agreement.

On June 6, 2008, the Board of Directors approved a reverse stock split. The authorized number of common stock of 20,000,000 was proportionately divided by 1.2545 to 15,942,607.

On October 20, 2008, the Board of Directors (i) approved a second reverse stock split pursuant to which the authorized number of shares of common stock of 15,942,607 was proportionately divided by 1.33177 to 11,970,994 and (ii) approved a resolution to increase the number of authorized shares of our common stock from 11,970,994 to 40,000,000, which is subject to shareholder approval.

**NOTE 4 – INCOME TAXES**

There is no income tax provision in the accompanying statement of operations due primarily to the valuation allowance for the deferred tax assets and state income taxes.

Federal and state income tax return operating loss carryovers as of June 30, 2008, were approximately \$1,261,000 and will begin to expire in 2018.

The valuation allowance has been recorded due to the uncertainty of realization of the benefits associated with the net operating losses. Future events and changes in circumstances could cause this valuation allowance to change.

The components of deferred income taxes at June 30 are as follows:

	June 30,	
	2008	2007
	(Unaudited)	(Unaudited)
Deferred Tax Asset:		
Net Operating Loss	\$ 315,000	\$ 196,000
Total Deferred Tax Asset	315,000	196,000
Less Valuation Allowance	315,000	196,000
Net Deferred Income Taxes	\$ —	\$ —

**NOTE 5 –NOTES PAYABLE**

The Company has a convertible debenture with a corporation of \$10,000 at 10.25% that matured in 2007 and is now overdue. The debenture is convertible to the Company's common stock at \$0.90 per share or the price per share at which the next equity financing agreement is completed.

**NOTE 6 – LONG-TERM DEBT**

Long-term debt is as follows:

**BIODRAIN MEDICAL, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**

	June 30,	
	2008	2007
Notes payable to several individuals due April 2008 including 8% fixed interest and is now overdue. The notes are convertible into 620,096 shares of the Company's common stock.	\$ 170,000	\$ —
Note payable to bank in monthly installments of \$1,275/including variable interest at 2% above the prevailing prime rate (7.00% at June 30, 2008) to August 2011 when the remaining balance is payable. The note is personally guaranteed by executives of the Company.	44,417	49,901
Note payable to Development Corporation in interest only payments at 8% to December 2008 when the remaining balance is payable. The note is personally guaranteed by executives of the Company.	—	18,000
Notes payable to two individuals in interest only payments at 12% to March 2012 when the remaining balance is payable. The notes are convertible into shares of stock in the Company at a price equal to the next completed funding transaction by the Company.	100,000	100,000
Notes payable to four shareholders of the Company that are overdue. The notes are convertible into shares of stock in the Company at \$1.00 per share.	4,000	4,000
Total	<u>318,417</u>	<u>171,901</u>
Less amount due within one year	185,800	29,900
Long-Term Debt	<u>\$ 132,617</u>	<u>\$ 142,001</u>

Cash payments for interest were \$2,950 on June 30, 2008 and \$8,069 in 2007.

Principal payments required during the next five years are: 2009 - \$185,800; 2010 - \$12,000; 2011 - \$13,300; 2012 - \$7,300; and 2013 - \$100,000.

**NOTE 7 – SUBSEQUENT EVENTS**

Subsequent to June 30, 2008, the Company received \$503,600 before financing, commissions and other associated costs in a private placement offering. This offering closed as of November 1, 2008.

On October 20, 2008, the Board of Directors approved a second reverse stock split of 1.670705-to-1. The authorized number of common stock of 15,942,607 was proportionately divided by 1.33177 to 11,970,994.

On October 20, 2008 the Board of Directors also approved an increase in the number of authorized shares of the Company's common stock from 11,970,994 to 40,000,000, which is subject to shareholder approval.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors  
BioDrain Medical, Inc.  
Orono, Minnesota

We have audited the balance sheet of BioDrain Medical, Inc. (a development stage company) as of December 31, 2007 and 2006 and the related statements of operations and cash flows for the years then ended and for the period from April 23, 2002 (inception), to December 31, 2007 and the statement of stockholders' deficit for the period from April 23, 2002 to December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BioDrain Medical, Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended and from April 23, 2002 (inception), to December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

St. Paul, Minnesota  
August 12, 2008

**BioDrain Medical, Inc.**  
**(A Development Stage Company)**

**Financial Statements**

**December 31, 2007**

**(Audited)**

**BIODRAIN MEDICAL, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**BALANCE SHEET**  
**DECEMBER 31, 2007 AND 2006**

	December 31, 2007	December 31, 2006
<b>ASSETS</b>		
Current assets:		
Cash	\$ 4,179	\$ 1,003
Prepaid expenses	4,558	271
<b>Total current assets</b>	<b>8,737</b>	<b>1,274</b>
Intangibles, net	113,056	67,011
<b>Total assets</b>	<b>\$ 121,793</b>	<b>\$ 68,285</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Current portion of long-term debt	\$ 203,800	\$ 20,500
Accounts payable	207,657	80,532
Accrued expenses	226,429	413,521
Note payable	10,000	10,000
Note Payable to Shareholder	—	10,973
<b>Total current liabilities</b>	<b>647,886</b>	<b>535,526</b>
Long-term debt	136,508	47,400
Stockholders' equity (deficit):		
Common stock \$0.01 par value; 20,000,000 shares authorized; 1,376,105 and 1,375,105 shares issued	13,761	13,751
Additional paid-in capital	112,309	100,357
Deficit accumulated during development stage	(788,671)	(628,749)
<b>Total stockholders' equity (deficit)</b>	<b>(662,601)</b>	<b>(514,641)</b>
<b>Total liabilities and stockholders' equity (deficit)</b>	<b>\$ 121,793</b>	<b>\$ 68,285</b>

See accompanying notes to financial statements.

**BIODRAIN MEDICAL, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**STATEMENT OF OPERATIONS**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006 AND**  
**THE PERIOD FROM APRIL 23, 2002 (INCEPTION) TO DECEMBER 31, 2007**

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	For the Year Ended December 31,	For the Year Ended December 31,	For the Period From April 23, 2002 (Inception) To December 31,
	<u>2007</u>	<u>2006</u>	<u>2007</u>
Operating expenses	\$ 126,684	\$ 266,958	\$ 735,146
Interest expense	33,238	6,068	53,525
Net loss	<u>\$ 159,922</u>	<u>\$ 273,026</u>	<u>\$ 788,671</u>

See accompanying notes to financial statements.

**BIODRAIN MEDICAL, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)**  
**PERIOD FROM APRIL 23, 2002 (INCEPTION) TO DECEMBER 31, 2007**

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	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Issuance of common stock	1,376,105	\$ 13,761	\$ 84,910	\$ —	\$ 98,671
Vested stock options and warrants			27,399	—	27,399
Net loss				(788,671)	(788,671)
Balance on December 31, 2007	1,376,105	\$ 13,761	\$ 112,309	\$ (788,671)	\$ (662,601)

See accompanying notes to financial statements.



**BIODRAIN MEDICAL, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**STATEMENT OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006 AND**  
**THE PERIOD FROM APRIL 23, 2002 (INCEPTION) TO DECEMBER 31, 2007**

	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006	For the Period From April 23, 2002 (Inception) To December 31, 2007
<b>Cash flows from operating activities:</b>			
Net loss	\$ (159,922)	\$ (273,026)	\$ (788,671)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>			
Amortization	47	70	350
Vested stock options and warrants	10,962	13,644	27,399
<b>Changes in assets and liabilities:</b>			
Prepaid expenses	(4,287)	201	(4,558)
Accounts payable	127,125	46,823	207,657
Note payable to shareholder	(10,973)	—	(10,973)
Accrued expenses	(187,092)	198,118	226,429
<b>Net cash used in operating activities</b>	<b>(224,140)</b>	<b>(14,170)</b>	<b>(342,367)</b>
<b>Cash flows from investing activities:</b>			
Purchases of intangibles	(46,092)	(29,675)	(113,406)
<b>Net cash used in investing activities</b>	<b>(46,092)</b>	<b>(29,675)</b>	<b>(113,406)</b>
<b>Cash flows from financing activities:</b>			
Proceeds on long-term debt	274,000	10,000	421,505
Principal payments on long-term debt	(1,592)	(37,658)	(60,224)
Issuance of common stock	1,000	46,901	98,671
<b>Net cash provided by financing activities</b>	<b>273,408</b>	<b>19,243</b>	<b>459,952</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>3,176</b>	<b>(24,602)</b>	<b>4,179</b>
<b>Cash at beginning of year</b>	<b>1,003</b>	<b>25,605</b>	<b>—</b>
<b>Cash at end of year</b>	<b>\$ 4,179</b>	<b>\$ 1,003</b>	<b>\$ 4,179</b>

See accompanying notes to financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

BioDrain Medical, Inc. was incorporated under the laws of the State of Minnesota in 2002. The Company is developing an environmentally safe system for the collection and disposal of infectious fluids that result from surgical procedures and post-operative care.

**Accounting Estimates**

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Intangible Assets**

Intangible assets consist of patent costs. These assets are not subject to amortization until the property patented is in production. The assets are reviewed for impairment annually, and impairment losses, if any, are charged to operations when identified. No impairment losses have been identified by management.

**Income Taxes**

Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The major temporary differences are the net operating losses. Due to historical losses on the accrual basis the related deferred tax assets are not recorded in the financial statements.

**Research and Development**

Research and development costs are charged to operations as incurred. Research and development costs were \$1,434 and \$75,383 for 2007 and 2006, respectively.

**NOTE 2 – DEVELOPMENT STAGE OPERATIONS**

The Company was formed April 23, 2002. One million shares of common stock were issued at par value and since inception 376,105 shares have been issued between par value and \$1. Operations since incorporation have been devoted to raising capital, obtaining financing, development of the Company's product, and administrative services.

**NOTE 3 – STOCK OPTIONS AND WARRANTS**

The Company has a stock option plan, which allows issuance of both incentive and non-qualified stock options to employees, directors and consultants of the Company, where permitted under the plan. The exercise price for each stock option is determined by the Board of Directors. Vesting requirements are determined by the Board of Directors when granted and currently range from immediate to three years. Options under this plan have terms varying from five to seven years.

The Company was required to adopt the provisions of FASB Statement No. 123R, *Share-Based Payment* (SFAS 123R) effective January 1, 2006. As permitted by SFAS No. 123R, the Company accounts for stock option awards using the calculated value method. The Company opted for early adoption of the provisions of SFAS 123R.

**BIODRAIN MEDICAL, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO FINANCIAL STATEMENTS**

The provisions of SFAS No. 123R are applicable to stock options awarded by the Company beginning in 2005. Under SFAS No. 123R, the Company is required to recognize compensation expense for options granted in 2005 and thereafter.

The Company has elected to use the Black-Scholes-Merton option pricing model. The fair value of these options was calculated using a risk-free interest rate of 4.12% to 5.07%, an expected life of 5 years and an expected volatility and dividend rate of 0%. Compensation expense recognized in the financial statements was \$10,962 and \$13,644 for 2007 and 2006, respectively.

The following summarizes transactions for stock options and warrants for the years ended December 31, 2007 and 2006:

	Stock Options		Warrants	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding at December 31, 2005	30,000	\$ 1.00	35,000	\$ 1.57
Issued	40,000	1.00	120,000	0.51
Outstanding at December 31, 2006	70,000	\$ 1.00	155,000	\$ 0.75
Issued	—	—	47,620	0.35
Outstanding at December 31, 2007	70,000	\$ 1.00	202,620	\$ 0.66

At December 31, 2007, 40,000 stock options are fully vested and currently exercisable. 202,620 warrants are fully vested and exercisable.

The following summarizes the status of options and warrants outstanding at December 31, 2007:

Range of Exercise Prices	Shares	Weighted Average Remaining Life
Options		
\$1.00	70,000	3.31
\$0.35	10,000	4.37
Warrants		
\$0.01	60,000	5.45
\$0.35	47,620	4.17
\$1.00	75,000	3.69
\$2.00	20,000	0.79

Stock options and warrants expire on various dates from October 2008 to December 2013.

In October 2007, the exercise price on the \$2.00 warrants changed to \$2.25 in accordance with the common stock warrant purchase agreement.

**NOTE 4 – INCOME TAXES**

There is no income tax provision in the accompanying statement of operations due primarily to the valuation allowance for the deferred tax assets and state income taxes.

Federal and state income tax return operating loss carryovers as of December 31, 2007, were approximately \$785,000 and will begin to expire in 2017.

The valuation allowance has been recorded due to the uncertainty of realization of the benefits associated with the net operating losses. Future events and changes in circumstances could cause this valuation allowance to change.

The components of deferred income taxes at December 31 are as follows:

	December 31,	
	2007	2006
Deferred Tax Asset:		
Net Operating Loss	\$ 196,000	\$ 156,000
Total Deferred Tax Asset	196,000	156,000
Less Valuation Allowance	196,000	156,000
Net Deferred Income Taxes	\$ —	\$ —

**NOTE 5 –NOTES PAYABLE**

The Company has a convertible debenture with a corporation of \$10,000 at 10.25% that matures in 2007. The debenture is convertible to the Company's common stock at \$0.90 per share or the price per share at which the next equity financing agreement is completed.

**NOTE 6 – LONG-TERM DEBT**

Long-term debt is as follows:

	December 31,	
	2008	2007
Notes payable to several individuals due April 2008 including 8% fixed interest. The notes are convertible into 620,096 shares of the Company's common stock.	\$ 170,000	\$ —
Note payable to bank in monthly installments of \$1,255/including variable interest at 2% above the prevailing prime rate (7.25% at December 31, 2007) to August 2011 when the remaining balance is payable. The note is personally guaranteed by executives of the Company.	48,308	49,900
Note payable to Development Corporation in interest only payments at 8% to December 2008 when the remaining balance is payable. The note is personally guaranteed by executives of the Company.	18,000	18,000
Notes payable to two individuals in interest only payments at 12% to March 2012 when the remaining balance is payable. The notes are convertible into shares of stock in the Company at a price equal to the next completed funding transaction by the Company.	100,000	—
Notes payable to four shareholders of the Company that are overdue. The notes are convertible into shares of stock in the Company at \$1.00 per share.	4,000	—
Total	340,308	67,900
Less amount due within one year	203,800	20,500
Long-Term Debt	\$ 136,508	\$ 47,400

Cash payments for interest were \$8,069 in 2007 and \$8,948 in 2006.

Principal payments required during the next five years are: 2008 - \$203,800; 2009 - \$12,000; 2010 - \$13,300; 2011 - \$11,200; and 2012 - \$100,000.

**NOTE 7 – SUBSEQUENT EVENTS**

Subsequent to year end 2007, the Company has received \$1,065,000 before financing, commissions and other associated costs in a private placement offering.

On June 6, 2008, the Board of Directors approved a reverse stock split. The authorized number of common stock of 20,000,000 was proportionately divided by 1.2545 to 15,942,607.

**Item 24. Indemnification of Directors and Officers.**

We are a Minnesota corporation and certain provisions of the Minnesota Statutes and our Bylaws provide for indemnification of our officers and directors against liabilities which they may incur in such capacities. A summary of the circumstances in which indemnification is provided is discussed below, but this description is qualified in its entirety by reference to our Bylaws and to the statutory provisions.

Section 302A.521, Subd. 2 of the Minnesota Statutes requires a corporation to indemnify a person made or threatened to be made a party to a proceeding by reason of the former or present official capacity of the person against judgments, penalties, fines, including, without limitation, excise taxes assessed against the person with respect to an employee benefit plan, settlements, and reasonable expenses, including attorneys' fees and disbursements, incurred by the person in connection with the proceeding, if, with respect to the acts or omissions of the person complained of in the proceeding, the person:

- (1) has not been indemnified by another organization or employee benefit plan for the same judgments, penalties, fines, including, without limitation, excise taxes assessed against the person with respect to an employee benefit plan, settlements, and reasonable expenses, including attorneys' fees and disbursements, incurred by the person in connection with the proceeding with respect to the same acts or omissions;
- (2) acted in good faith;
- (3) received no improper personal benefit and Section 302A.255, if applicable, has been satisfied;
- (4) in the case of a criminal proceeding, had no reasonable cause to believe the conduct was unlawful; and
- (5) in the case of acts or omissions occurring in the person's performance in the official capacity of director or, for a person not a director, in the official capacity of officer, board committee member or employee, reasonably believed that the conduct was in the best interests of the corporation or, in the case of performance by a director, officer or employee of the corporation involving service as a director, officer, partner, trustee, employee or agent of another organization or employee benefit plan, reasonably believed that the conduct was not opposed to the best interests of the corporation. If the person's acts or omissions complained of in the proceeding relate to conduct as a director, officer, trustee, employee, or agent of an employee benefit plan, the conduct is not considered to be opposed to the best interests of the corporation if the person reasonably believed that the conduct was in the best interests of the participants or beneficiaries of the employee benefit plan.

Section 302A.521 Subd. 2 further provides that the termination of a proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent does not, of itself, establish that the person did not meet the criteria set forth in this subdivision.

In addition, Section 302A.521, Subd. 3, requires that if a person is made or threatened to be made a party to a proceeding, the person is entitled, upon written request to the corporation, to payment or reimbursement by the corporation of reasonable expenses, including attorneys' fees and disbursements, incurred by the person in advance of the final disposition of the proceeding, (a) upon receipt by the corporation of a written affirmation by the person of a good faith belief that the criteria for indemnification set forth in Section 302A.521, Subd. 2 have been satisfied and a written undertaking by the person to repay all amounts so paid or reimbursed by the corporation, if it is ultimately determined that the criteria for indemnification have not been satisfied, and (b) after a determination that the facts then known to those making the determination would not preclude indemnification under this section. The written undertaking required by clause (a) is an

unlimited general obligation of the person making it, but need not be secured and shall be accepted without reference to financial ability to make the repayment.

Section 302A.521 Subd. 4 provides that the articles of incorporation or bylaws of a corporation either may prohibit indemnification or advances of expenses otherwise required by Section 302A.521 or may impose conditions on indemnification or advances of expenses in addition to the conditions contained in Subd. 2 and 3 including, without limitation, monetary limits on indemnification or advances of expenses, if the prohibition or conditions apply equally to all persons or to all persons within a given class. A prohibition or limit on indemnification or advances may not apply to or affect the right of a person to indemnification or advances of expenses with respect to any acts or omissions of the person occurring prior to the effective date of a provision in the articles of incorporation or the date of adoption of a provision in the corporation's bylaws establishing the prohibition or limit on indemnification or advances.

Section 302A.521 Subd. 5 provides that Section 302A.521 does not require, or limit the ability of a corporation to reimburse expenses, including attorneys' fees and disbursements, incurred by a person in connection with an appearance as a witness in a proceeding at a time when the person has not been made or threatened to be made a party to a proceeding

Section 302A.521 Subd. 6 further provides that:

- (a) all determinations whether indemnification of a person is required because the criteria set forth in Subd. 2 have been satisfied and whether a person is entitled to payment or reimbursement of expenses in advance of the final disposition of a proceeding as provided in Subd. 3 shall be made:
- (1) by the board by a majority of a quorum, if the directors who are at the time parties to the proceeding are not counted for determining either a majority or the presence of a quorum;
  - (2) if a quorum under clause (1) cannot be obtained, by a majority of a committee of the board, consisting solely of two or more directors not at the time parties to the proceeding, duly designated to act in the matter by a majority of the full board including directors who are parties;
  - (3) if a determination is not made under clause (1) or (2), by special legal counsel, selected either by a majority of the board or a committee by vote pursuant to clause (1) or (2) or, if the requisite quorum of the full board cannot be obtained and the committee cannot be established, by a majority of the full board including directors who are parties;
  - (4) if a determination is not made under clauses (1) to (3), by the affirmative vote of the shareholders required by Section 302A.437 of the Minnesota Statutes, but the shares held by parties to the proceeding must not be counted in determining the presence of a quorum and are not considered to be present and entitled to vote on the determination; or
  - (5) if an adverse determination is made under clauses (1) to (4) or under paragraph (b), or if no determination is made under clauses (1) to (4) or under paragraph (b) within 60 days after (i) the later to occur of the termination of a proceeding or a written request for indemnification to the corporation or (ii) a written request for an advance of expenses, as the case may be, by a court in this state, which may be the same court in which the proceeding involving the person's liability took place, upon application of the person and any notice the court requires. The person seeking indemnification or payment or reimbursement of expenses pursuant to this

clause has the burden of establishing that the person is entitled to indemnification or payment or reimbursement of expenses.

(b) With respect to a person who is not, and was not at the time of the acts or omissions complained of in the proceedings, a director, officer, or person possessing, directly or indirectly, the power to direct or cause the direction of the management or policies of the corporation, the determination whether indemnification of this person is required because the criteria set forth in Subd. 2 have been satisfied and whether this person is entitled to payment or reimbursement of expenses in advance of the final disposition of a proceeding as provided in Subd. 3 may be made by an annually appointed committee of the board, having at least one member who is a director. The committee shall report at least annually to the board concerning its actions.

Section 302A.521 Subd 7 allows a corporation to purchase and maintain insurance on behalf of a person in that person's official capacity against any liability asserted against and incurred by the person in or arising from that capacity, whether or not the corporation would have been required to indemnify the person against the liability under the provisions of section 302A.521 of the Minnesota Statutes.

Section 302A.521 Subd. 8 requires a corporation that indemnifies or advances expenses to a person in accordance with Section 302A.521 in connection with a proceeding by or on behalf of the corporation to report to the shareholders in writing the amount of the indemnification or advance and to whom and on whose behalf it was paid not later than the next meeting of shareholders.

Section 302A.521 Subd. 9 provides that nothing in Section 302A.521 shall be construed to limit the power of the corporation to indemnify persons other than a director, officer, employee, or member of a committee of the board of the corporation by contract or otherwise.

Pursuant to our Bylaws, we may indemnify our directors and executive officers to the fullest extent not prohibited by any applicable law; provided, however, that we may modify the extent of such indemnification by individual contracts with our directors and executive officers; and, provided, further, that we shall not be required to indemnify any director or executive officer in connection with any proceeding (or part thereof) initiated by such person unless: (i) such indemnification is expressly required to be made by law; (ii) the proceeding was authorized by our Board of Directors; (iii) such indemnification is provided by the Company, in our sole discretion, pursuant to the powers vested in the Company under any applicable law. We shall have the power to indemnify our other officers, employees and other agents as set forth in any other applicable law. Our Board of Directors shall have the power to delegate the determination of whether indemnification shall be given to any such person to such officers or other persons as our Board of Directors shall determine.

In addition, our Bylaws provide that we will advance to any person who was or is a party to a threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director or executive officer, of the Company, prior to the final disposition of the proceeding, promptly following request therefore, all expenses incurred by any director or executive officer in connection with such proceeding; provided, however, that the advancement of expenses shall be made only upon delivery to the Company of an undertaking by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified for such expenses. Notwithstanding the foregoing, unless otherwise determined, no advance shall be made by the Company to an officer of the Company (except by reason of the fact that such officer is or was a director of the Company in which event this paragraph shall not apply) in any action, suit or proceeding, whether civil, criminal, administrative or investigative, if a determination is reasonably and promptly made: (i) by a majority vote of directors who are not parties to the proceeding; (ii) by a committee of such directors designated by a majority vote of such directors; or (iii) if there are no such directors, or such directors so direct, by a written opinion from independent legal counsel, that the facts known to the decision making party at the time such



determination is made demonstrate clearly and convincingly that such person acted in bad faith or in a manner that such person did not believe to be in the best interests of the Company.

Our Bylaws also provide that without the necessity of entering into an express contract, all rights to indemnification and advances to our directors and executive officers shall be deemed to be contractual rights and to be effective to the same extent and as if provided for in a contract between the Company and the director or executive officer. Any right to indemnification or advances granted to a director or executive officer shall be enforceable by or on behalf of the person holding such right in any court of competent jurisdiction if: (i) the claim for indemnification or advances is denied, in whole or in part; or (ii) no disposition of such claim is made within ninety (90) days of request therefore. The claimant in such enforcement action, if successful, shall be entitled to be paid also the expense of prosecuting the claim. In connection with any claim for indemnification, the Company shall be entitled to raise as a defense to any such action that the claimant has not met the standards of conduct that make it permissible under applicable law for the Company to indemnify the claimant for the amount claimed. In connection with any claim by an executive officer of the Company (except in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such executive officer is or was a director of the Company) for advances, the Company shall be entitled to raise a defense as to any such action clear and convincing evidence that such person acted in bad faith or in a manner that such person did not believe to be in the best interests of the Company, or with respect to any criminal action or proceeding that such person acted without reasonable cause to believe that his conduct was lawful. A determination by the Company (including the Board of Directors, independent legal counsel or the stockholders) that indemnification of the claimant is proper because he has met the applicable standard of conduct or that the claimant has not met such applicable standard of conduct shall not be a defense to the action nor shall it create a presumption that claimant has not met the applicable standard of conduct.

**Item 25. Other Expenses of Issuance and Distribution.**

The following table sets forth an estimate of the costs and expenses payable by us in connection with the registration of the common stock offered hereby. All of the amounts shown are estimates except the Securities and Exchange Commission Registration Fee:

	Amount
SEC Registration Fee	\$ 200
Printing Fees	\$ 30,000
Legal Fees and Expenses	\$ 80,000
Accounting Fees and Expenses	\$ 60,000
Miscellaneous	\$ 55,000
Total	<u>\$ 225,200</u>

**Item 26. Recent Sales of Unregistered Securities.**

During the past three years, the Company has issued the following securities without registration under the Securities Act of 1933, as amended. The discussions below take into account the June 6, 2008 and October 20, 2008 reverse stock splits.

On August 22, 2005, we issued options to purchase 30,000 (17,957 post split) shares of our common stock at \$1.00 per share to a member of our board of directors, Thomas McGoldrick, for his services as a director. The options were grantable annually at 10,000 per year starting in 2008.

On August 31, 2005, we issued warrants to purchase 5,000 (2,993 post split) shares of our common stock at \$1.00 per share to each of three members of our Medical Advisory Board for their services on the Medical Advisory Board.

On December 14, 2005, we issued 12,500 (7,482 post split) shares of common stock to officers Lawrence Gadbow and Gerald Rice for personal guarantees on Company loans.

On May 16, 2006, we issued 120,133 (91,906 post split) shares of our common stock to the inventor of our intellectual property at \$1.00 per share.

On June 12, 2006, we issued warrants to purchase 60,000 (35,913 post split) shares of our common stock at \$.01 per share to a well-known physician for his services on the Medical Advisory Board. The warrant agreement contained an anti-dilution clause that would add another 60,000 (35,913 post split) shares upon any large, dilutionary offering.

On August 8, 2006, we issued 25,000 (14,964 post split) shares of our common stock to a vendor in partial payment of an invoice.

On August 22, 2006, pursuant to a stock option agreement with Thomas McGoldrick, a member of our board of directors, we issued warrants to purchase 10,000 (5,986 post split) shares of our common stock to Mr. McGoldrick.

On October 4, 2006, we entered into an employment agreement with Kevin Davidson, our Chief Executive Officer. As part of this agreement, we agreed to issue 50,000 (29,928 post split) shares of our common stock to Mr. Davidson, which was issued on October 19, 2006. This amounted to 3.81% of our outstanding common stock. Mr. Davidson has an anti-dilution protection in his employment agreement that he would retain his 3.81% ownership up to the first \$1,000,000 raised by the Company. This amounted to 543,292 shares. On October 14, 2008, pursuant to a stock option agreement with the Company, Mr. Davidson opted to convert the stock to stock options.

On October 23, 2006, we issued 15,000 (8,979 post split) shares of our common stock to an employee as a part of his compensation package in his employment agreement.

On November 11, 2006, we issued options to purchase 30,000 (17,975) shares of our common stock at \$1.00 per share to a member of our board of directors, Andrew Reding, for his services as a director. The options were grantable annually at 10,000 per year starting in 2007.

On December 1, 2006, we fully repaid two of our three loans due to Wisconsin Rural Enterprise Fund ("WREF"). As of December 2006 the total principal due was \$37,500. We issued 43,000 (25,738 post split) shares of our common stock at \$1.00 per share to fully repay the two loans plus interest. In addition, we issued warrants to purchase 35,000 shares of our common stock at \$1.00 per share. All stock issued to WREF carries a non-dilution clause that issues WREF additional stock to match the dollar value of their investment, at \$1.00 per share.

On December 1, 2006, we issued 5,000 (3,986 post split) shares of our common stock to pay a consulting fee to Wisconsin Business Innovation Corporation, a related firm of WREF.

On December 7, 2006, we issued warrants to purchase 5,000 (2,993 post split) shares of our common stock at \$1.00 per share to one of our Medical Advisory Board members for her services.

On December 20, 2006 we issued warrants to purchase 5,000 (2,993 post split) shares of our common stock each at \$1.00 per share to two advisors for their services to the Company.

On January 30, 2007 we fully repaid a Company loan of \$1,000 due one of our employees to 1,000 (599 post split) shares of our common stock.

On March 1, 2007, we entered into a convertible debenture agreement with two payees, who loaned us \$50,000 each, whereby we agreed to issue warrants to purchase up to 20% of the loan amount (or \$10,000 each) at a price per share equal to the Company's next completed funding.

On November 11, 2007, pursuant to a stock option agreement with Andrew Reding, a member of our board of directors, we issued warrants to purchase 10,000 (5,986 post split) shares of our common stock to Mr. Reding.

On February 29, 2008, we entered into a consulting agreement with Jeremy Roll for referral services for the Company's funding that was completed on August 31, 2008. Under the agreement, in addition to a cash referral fee, Mr. Roll was entitled to receive warrants to purchase our common stock at \$.35 per share equal to 10% of his gross proceeds of the funds raised for us. As a result, in July 7, 2008 Mr. Roll received warrants to purchase 11,429 shares of our common stock.

On March 10, 2008, we entered into a finder agreement with Thomas Pronesti for referral services for the Company's funding that was completed on August 31, 2008. This agreement also covered the following finders: Craig Kulman, Caron Partners, LP and Bellajule Partners, LP. Under the agreement, in addition to a cash referral fee, the finders were entitled to receive 10% of their gross proceeds raised for us with a fair market value of our common stock, or \$.35 per share. As a result, on June 23, 2008, the group of finders received an aggregate of 155,142 shares of our common stock.

On April 15, 2008, we entered into an investor relations agreement with Kulman IR, LLC. Under the agreement, in addition to cash fees, Kulman was entitled to receive 250,000 shares of our common stock. On June 23, 2008 Kulman and Cross Street Partners, Inc. each received 125,000 shares of our common stock.

On June 16, 2008, we entered into an employment agreement with Chad Ruwe. As part of this agreement we issued him options to purchase 250,000 shares of our common stock at \$.35 per share.

On June 30, 2008, we entered into a consulting agreement with Namaste Financial, Inc. for a one-year period of general business, strategic and growth advisory services. Under the agreement, Namaste is entitled to receive 125,000 shares of our common stock and warrants to purchase an 125,000 shares of our common stock at \$.46 per share.

On August 11, 2008, we entered into an employment agreement with David Dauwalter. As part of this agreement we issued him options to purchase 50,000 shares of our common stock.

In August 2008, we issued a warrant to purchase 50,000 shares of our common stock at \$.46 per share to a regulatory consultant for his past services.

## **Item 27. Exhibits.**

### **EXHIBIT INDEX**

- 3.1 Articles of Incorporation of the Registrant, as amended
- 3.2 Bylaws of the Registrant, as amended
- 5.1 Opinion of Richardson & Patel LLP\*
- 10.1 Form of Employment Agreement by and between the Registrant and Kevin R. Davidson dated October 4, 2006
- 10.2 Form of Employment Agreement by and between the Registrant and Gerald D. Rice dated October 18, 2006
- 10.3 Form of Employment Agreement by and between the Registrant and Chad A. Ruwe dated June 16, 2008

- 10.4 Form of Confidential Separation Agreement and Release by and between the Registrant and Lawrence W. Gadbaw dated August 13, 2008
- 10.5 Form of Nondisclosure and Noncompete Agreement by and between the Registrant and Lawrence W. Gadbaw dated October 18, 2006
- 10.6 Form of Stock Option Agreement by and between the Registrant and Kevin R. Davidson dated June 5, 2008
- 10.7 Form of Director Stock Option Agreement between the Registrant and Thomas McGoldrick dated August 22, 2006
- 10.8 Form of Director Stock Option Agreement between the Registrant and Andrew P. Reding dated November 11, 2006
- 10.9 Form of Consulting Agreement by and between the Registrant and Jeremy Roll dated February 29, 2008
- 10.10 Form of Consulting Agreement by and between the Registrant and Namaste Financial, Inc. dated June 30, 2008
- 10.11 Form of Consulting Agreement by and between the Registrant and Marshall C. Ryan and Mid-State Stainless, Inc. dated June 2008
- 10.12 Form of Investor Relations Agreement by and between the Registrant and Kulman IR, LLC dated April 15, 2008
- 10.13 Form of Finder Agreement by and between the Registrant and Thomas Pronesti dated March 10, 2008
- 10.14 Form of Patent Assignment by Marshall C. Ryan in favor of the Registrant dated June 18, 2008
- 10.15 Form of Convertible Debenture by and between the Registrant and Kevin R. Davidson dated February 2, 2007
- 10.16 Form of Convertible Debenture by and between the Registrant and Peter L. Morawetz dated February 2, 2007
- 10.17 Form of Convertible Debenture by and between the Registrant and Andrew P. Reding dated February 2, 2007
- 10.18 Form of Convertible Debenture by and between the Registrant and Thomas McGoldrick dated January 30, 2007
- 10.19 Form of Convertible Debenture by and between the Registrant and Andcor Companies, Inc. dated September 29, 2006
- 10.20 Form of Convertible Debenture by and between the Registrant and Carl Moore dated March 1, 2007
- 10.21 Form of Convertible Debenture by and between the Registrant and Roy Moore dated March 1, 2007
- 10.22 Form of Advisory Board Warrant Agreement by and between the Registrant and Debbie Heitzman dated August 31, 2005
- 10.23 Form of Advisory Board Warrant Agreement by and between the Registrant and Mary Wells Gorman dated August 31, 2005
- 10.24 Form of Advisory Board Warrant Agreement by and between the Registrant and David Feroe dated August 31, 2005
- 10.25 Form of Advisory Board Warrant Agreement by and between the Registrant and Dr. Arnold S. Leonard dated June 12, 2006
- 10.26 Form of Advisory Board Warrant Agreement by and between the Registrant and Karen A. Ventura dated December 7, 2006
- 10.27 Form of Advisory Board Warrant Agreement by and between the Registrant and Nancy A. Kolb dated December 20, 2006
- 10.28 Form of Advisory Board Warrant Agreement by and between the Registrant and Kim Shelquist dated December 20, 2006
- 10.29 Form of Warrant Agreement by and between the Registrant and Wisconsin Rural Enterprise Fund, LLC dated December 1, 2006
- 10.30 Form of Stock Purchase and Sale Agreement by and between the Registrant and Wisconsin Rural Enterprise Fund, LLC dated July 31, 2006
- 10.31 Form of Subscription Agreement
- 10.32 Form of Registration Rights Agreement

10.33	Form of Escrow Agreement
10.34	Form of Warrant
10.35	2008 Equity Incentive Plan
10.36	Office Lease Agreement by and between the Registrant and Roseville Properties Management Company, as agent for Lexington Business Park, LLC
14	Code of Ethics*
21	Subsidiaries of the Registrant
23.1	Consent of Olsen Thielen & Co., Ltd.
23.2	Consent of Richardson & Patel LLP (See Exhibit 5.1)

\* To be filed by amendment.

#### **Item 28. Undertakings.**

The undersigned registrant hereby undertakes:

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

- i. Include any prospectus required by section 10(a)(3) of the Securities Act of 1933;
- ii. Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Securities and Exchange Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and
- iii. Include any additional or changed material information on the plan of distribution.

2. For determining liability under the Securities Act of 1933, treat each post-effective amendment as a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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

4. Each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons under the foregoing provisions or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. If a claim for indemnification against such liabilities (other than our payment

of expenses incurred or paid by any of our directors, officers or controlling persons in the successful defense of any action, suit, or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by a controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

*[The remainder of this page left blank intentionally]*

**SIGNATURES**

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-1 and authorized this registration statement to be signed on its behalf by the undersigned, in the City of Mendota Heights, State of Minnesota on November 12, 2008.

**BIODRAIN MEDICAL, INC.**

By: /s/ Kevin R. Davidson

\_\_\_\_\_  
Kevin R. Davidson  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated:

<b>Name</b>	<b>Title</b>	<b>Date</b>
/s/ Lawrence W. Gadbow _____ Lawrence W. Gadbow	Chairman of the Board of Directors	November 12, 2008
/s/ Kevin R. Davidson _____ Kevin R. Davidson	President, Chief Executive Officer and director (Principal Executive Officer)	November 12, 2008
/s/ Gerald D. Rice _____ Gerald D. Rice	Chief Financial Officer (Principal Financial Officer) and Secretary	November 12, 2008
/s/ Chad A. Ruwe _____ Chad A. Ruwe	Executive Vice President of Operations and director	November 12, 2008
/s/ Peter L. Morawetz _____ Peter L. Morawetz	Director	November 12, 2008
/s/ Thomas J. McGoldrick _____ Thomas J. McGoldrick	Director	November 12, 2008
/s/ Andrew P. Reding _____ Andrew P. Reding	Director	November 12, 2008

## ARTICLES OF INCORPORATION

OF

BioDrain Medical, Inc.

We, the undersigned, of full age, for the purpose of forming a corporation under and pursuant to Minnesota Statutes, Chapter 302A in accordance with Section 302A.133, and laws amendatory thereof and supplementary thereto, adopt the following Articles of Incorporation.

## ARTICLE I

**Name:** The name of this Corporation shall be BioDrain Medical, Inc.

## ARTICLE II

**Duration:** The duration of this Corporation shall be perpetual.

## ARTICLE III

**Purpose:** The purposes for which this Corporation is organized are as follows:

- a. General Business purposes.
- b. To manufacture, buy, sell, deal in, and to engage in, contact, and carry on the business of manufacturing, buying, selling and dealing in, goods, wares and merchandise of every class and description.
- c. To purchase, acquire, hold, improve, sell, convey, assign, release, mortgage, encumber, lease, hire and deal in and otherwise dispose of real and personal property of every kind, name and nature, within or without the state, including stocks, securities and obligations, and to loan money and take securities for the payment of all sums due the corporation, and to sell, assign and release such securities, and to take real and personal property by Will and gift.
- d. To carry out the purposes herein above set forth in any state, territory, district or possession of the United States, or in any foreign country, to the extent that such purposes are not forbidden by the laws thereof; and, in the case of any state, territory, district or possession of the United States, or any foreign country, in which one or more of such purposes are forbidden by law, to limit, in any certificate for application to do business, the purpose or purposes which the corporation proposes to carry on therein to such as are not forbidden by the law thereof.

## ARTICLE IV

**Registered Office:** The location and post office address of the registered office of the corporation, in the State of Minnesota, is 699 Minnetonka Highlands Lane, Orono, MN 55356-9728.

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ARTICLE V

**Authorized Shares:** The total number of par value shares which this corporation shall have authority to issue is 10 million shares with a par value of one cent (\$.01) per share; all of such shares shall be common stock.

ARTICLE VI

**Stated Capital:** The amount of stated capital with which this corporation shall begin business will be One Thousand Dollars (\$10,000.00).

ARTICLE VII

**Directors:** The names and post office addresses of the First Directors, whose term of office shall extend until the first annual meeting of the shareholders, or until their successors are elected and have qualified, are as follows:

Lawrence W. Gadbow 699 Minnetonka Highlands Lane, Orono, Minnesota, 55356

j.j.a.w.w., LLC (In the person of Jeffrey K. Drogue, its Governor)  
4112 Xerxes Avenue South, Minneapolis, Minnesota 55410

Peter L. Morawetz 2433 Sheridan Avenue South, Minneapolis, Minnesota 55405

Gerald D. Rice 7389 Bolton Way, Inver Grove Heights, Minnesota 55076

ARTICLE VIII

**Incorporators:** The names and post office addresses of each of the incorporators are as follows:

Lawrence W. Gadbow 699 Minnetonka Highlands Lane, Orono, Minnesota, 55356

j.j.a.w.w., LLC (In the person of Jeffrey K. Drogue, its Governor)  
4112 Xerxes Avenue South, Minneapolis, Minnesota 55410

Peter L. Morawetz 2433 Sheridan Avenue South, Minneapolis, Minnesota 55405

Gerald D. Rice 7389 Bolton Way, Inver Grove Heights, Minnesota 55076

ARTICLE IX

**Corporate Powers:** This corporation shall have all the powers granted to private corporations organized for profit by said Minnesota Business Corporation Act, and in furtherance and not in limitation, of the powers conferred by the laws of the State of Minnesota upon corporations organized for the foregoing purposes, the corporation shall have the power to acquire, hold, mortgage, pledge or dispose of the shares, bonds, securities or other evidences of indebtedness of the United States of America, or of any domestic or foreign corporation, and while the holder of such shares, to exercise all the privileges of ownership, including the right to vote thereon, to the same extent as a natural person might

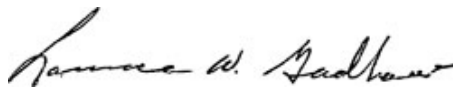
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or could do, by the president of this corporation or by proxy appointed by him, unless some other person, by resolution of the Board of Directors, shall be appointed to vote such share.

ARTICLE X

By-Laws Change: Authority to make or alter By-Laws is hereby vested in the Board of Directors subject to the power of the stockholders to change or repeal such By-Laws; provided, however, that the Board of Directors shall not make or alter any By-Laws fixing their number, qualifications, classifications or terms of office.

In Testimony Whereof, the undersigned incorporators are persons who are of full age, and have hereto signed these Articles of Incorporation, this 23<sup>rd</sup> day of April 2002.



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Lawrence W. Gadbow



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Peter L. Morawetz

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j.j.a.w.w., LLC (In the person of Jeffery K. Drogue, its Governor)



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Gerald D. Rice

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**By-Laws****Of****BioDrain Medical, Inc.****Article I****Stockholders' Meetings**

Section 1. **Place of meetings.** The meetings of the stockholders shall be held at any place designated by the Board of Directors or consented to in writing by all of the stockholders entitled to vote there at.

Section 2. **Stockholders Meetings.** Meetings will be held by written notice, stating the place, day and hour of the meeting, mailed or personally delivered not less than (5) days prior to the date of the meeting, by the secretary to each stockholder of record entitled to vote at such meeting.

Section 3. **Special Meetings.** Special meetings of the stockholders may be called at anytime upon request of the President, any Vice-President or a majority of the members of the Board of Directors, by one or more stockholders holding not less then one-tenth of the voting power of the stockholders.

Section 4. **Notice of meetings.** Written notice, stating the place, day and hour of the meeting and, in case of a special meeting, mailed or personally delivered not less than five (5) days prior to the date of the meeting, by the secretary to each stockholder of record entitled to vote at such meeting. Waiver by a stockholder of notice of a stockholders' meeting, signed by him whether before or after the time of such meeting, shall be equivalent to the giving of such notice. In case of adjournment of a meeting from time to time, no further notice of the adjournment shall be necessary if an announcement is made at the meeting where the adjournment is had, specifying the place, day and hour of the adjourned meeting.

Section 5. **Voting Rights.** Every holder of record, as provided below, of Common Stock shall be entitled to vote, in person or by proxy executed in writing and delivered to the Secretary at or before the meeting, and he shall be entitled to one vote for each share of standing in his name; provided that no proxy shall be voted if executed more than one year prior to the date of such meeting except as may otherwise be provided by the Board of Directors from time to time, only stockholders of record at the close of business on a day twenty (20) days prior to the date of the meeting shall be entitled to vote at such meeting.

Section 6. **Quorum.** The presence, in person or by proxy of the holders of a majority of the shares entitled to vote at the meeting shall constitute a quorum for the transaction of business. In the absence of a quorum for the transaction of business, any meeting may be adjourned from time to time. The stockholders present at a duly called or held meeting may continue to do business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum. The President or, in his absence, the Vice-President or any other person designated from time to time by the Board of Directors, shall preside at all meetings of the Stockholders.

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## Article II

### Directors

Section 1. **Number of Directors.** The business of the corporation shall be managed by a board of not less than three nor more than seven directors, who need not be stockholders of the corporation and the decisions of the board shall be by a majority of the members, If the number of stockholders shall be less than three, including beneficial stockholders, the board may consist of a number of directors not less than the number of such stockholders.

Section 2. **Tenure.** At each annual meeting the stockholders shall elect directors to hold office until the next succeeding annual meeting or until their successors are elected and qualified.

Section 3. **Vacancies.** Any vacancy occurring in the Board of Directors may be filled by the affirmative vote of the remaining directors or by election at a meeting of stockholders. A director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office.

Section 4. **Meeting of the Board** Meetings of the Board of Directors may be held upon three (3) days' written notice upon the call of the President or any director. Notice may be waived in writing before or after the time of such meeting, and attendance of a Director at a meeting shall constitute a waiver of notice thereof. Neither the business to be transacted at, nor the purpose of, any meeting need be specified in the notice of such meeting.

Section 5. **Quorum.** A majority of the Directors shall constitute a quorum for the transaction of business, provided, however, that if any vacancies exist for any reason, the remaining directors shall constitute a quorum for the filling of such vacancies.

## Article III

### Officers

Section 1. **Number of officers.** The officers of the corporation shall consist of a President and CEO, one or more Vice-Presidents, a secretary and a treasurer, and such other officers and assistant officers, counsel and agents as may be chosen by the Board of Directors from time to time. One person may hold any two offices, except that the President shall not hold the office of Vice-President, unless there is only one member of the Board, in which case he shall hold all offices.

Section 2. **Elections; Vacancies; Tenure.** Officers shall be chosen at a meeting of the Board of Directors, to hold office until their successors are chosen and qualified. Any officer may be removed with or without cause by the affirmative vote of a majority of the Board of Directors. Any vacancy shall be filled by the affirmative vote of a majority of the directors, and an officer so chosen shall hold office until the his successor is chosen and qualified.

Section 3. **President.** The President shall preside at all meetings of stockholders and directors, and shall perform all duties incident to his office and such other duties as may be prescribed from time to time by these By-Laws or by the Board of Directors.

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Section 4. **Vice-President.** Each Vice-President shall perform such duties as may be prescribed from time to time by these By-Laws or by the Board of Directors.

Section 5. **Secretary.** The Secretary shall attend all meetings of the stockholders and Board of Directors, and shall record all proceedings of such meetings in the Minute Book of the corporation. He shall give proper notice of meetings of stockholders and Board of Directors and other notices required by law or by these By-Laws. He shall perform all duties incident to his office and such or duties as these By-Laws or the Board of Directors may, from time to time, prescribe.

Section 6. **Treasurer.** The Treasurer shall keep correct and complete financial records of the corporation and shall have custody of the corporate funds, securities, and other valuable effects of the corporations. He shall deposit all monies and other valuable effects, in the name of the corporation, in such depositories as may be designated by the Board of Directors. He shall furnish at meetings of the Board of Directors, or whenever requested, a statement of the financial condition of the corporation, and shall perform such duties as these By-Laws or the Board of Directors may from time to time prescribe.

Section 7. **Salaries.** The salaries of all officers shall be fixed by the Board of Directors, and the fact any officer is a Director shall not preclude him from receiving a salary or from voting upon the resolution providing for the same.

Section 8. **Contracts.** Except as otherwise provided by the Board of Directors from time to time, all-formal contracts of this corporation shall be executed on its behalf by the President or any Vice-President.

#### **Article IV**

##### **Indemnification**

Section 1. **Indemnification of Directors, Executive Officers, other officers, Employees and other Agents.** The corporation shall indemnify its directors and executive officers to the fullest extent not prohibited by any applicable law; PROVIDED, HOWEVER, that the corporation may modify the extent of such indemnification by individual contracts with its directors and executive officers; and, PROVIDED, FURTHER, that the corporation shall not be required to indemnify any director or executive officer in connection with any proceeding (or part thereof ) initiated by such person unless ( i ) such indemnification is expressly required to be made by law, ( ii ) the proceeding was authorized by the Board of Directors of the corporation, ( iii ) such indemnification is provided by the corporation, in its sole discretion, pursuant to the powers vested in the corporation under any applicable law. The corporation shall have power to indemnify its other officers, employees and other agents as set forth in any other applicable law. The Board of Directors shall have the power to delegate the determination of whether indemnification shall be given to any such person to such officers or other persons as the Board of Directors shall determine.

Section 2. **Expenses.** The corporation shall advance to any person who was or is a party or is threatened, pending or completed action, suit of proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director or executive officer, of the corporation, prior to the final disposition of the proceeding, promptly following request therefore, all expenses incurred by any director or executive officer in connection with such proceeding; PROVIDED HOWEVER, applicable law requires, an advancement of expenses incurred by the director or executive officer in his capacity in which service was or is rendered by such indemnitee, Shall be made only upon delivery to the corporation of an undertaking by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified for such expenses. Notwithstanding the foregoing, unless otherwise determined, no advance shall be made by the corporation to an officer of the corporation (except by reason

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of the fact that such officer is or was a director of the corporation in which event this paragraph shall not apply) in any action, suit or proceeding, whether civil, criminal, administrative or investigative, if a determination is reasonably and promptly made ( i ) by a majority vote of directors who not parties to the proceeding, even if not a quorum, or ( ii ) by a committee of such directors designated by a majority vote of such directors, even though less than a quorum, or (iii ) if there are no such directors, or such directors so direct, by independent legal council in a written opinion, that the facts known to the decision making party at the time such determination is made demonstrate clearly and convincingly that such person acted in bad faith or in a manner that such person did not believe to be in or not opposed to the best interests of the corporation.

Section 3. **Enforcement.** Without the necessity of entering into an express contract, all rights to indemnification and advances to directors and executive officers shall be deemed to be contractual rights and to be effective to the same extent and as if provided for in a contract between the corporation and the director or executive officer. Any right to indemnification or advances granted to a director or executive officer shall be enforceable by or on behalf of the person holding such right in any court of competent jurisdiction if ( i ) the claim for indemnification or advances is denied, in whole or in part, or (ii ) no disposition of such claim is made within ninety ( 90 ) days of request therefore. The claimant in such enforcement action, if successful in whole or in part, shall be entitled to be paid also the expense of prosecuting the claim. In connection with any claim for indemnification, the corporation shall be entitled to raise as a defense to any such action that the claimant has not met the standards of conduct that make it permissible under applicable law for the corporation to indemnify the claimant for the amount claimed. In connection with any claim by an executive officer of the corporation (except in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such executive officer is or was a director of the corporation) for advances, the corporation shall be entitled to raise a defense as to any such action clear and convincing evidence that such person acted in bad faith or in a manner that such person did not believe to be in or not opposed to the best interests of the corporation, or with respect to any criminal action or proceeding that such person acted without reasonable cause to believe that his conduct was lawful. Neither the failure of the corporation ( including its Board of Directors, independent legal counsel or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he has met the applicable standard of conduct set forth in applicable law, nor an actual determination by the corporation ( including its Board of Directors, independent legal counsel or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that claimant has not met the applicable standard of conduct.

Section 4. **Non-Exclusivity of Rights.** The rights conferred on any person by this By-Law shall not be exclusive of any other right which such person may have or hereafter acquire under any applicable statute, provision of the Certificate of Incorporation, By-Laws, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding office. The corporation is specifically authorized to enter into individual contracts with any or all of its directors, officers, employees or agents respecting indemnification and advances, to the fullest extent not prohibited by applicable law.

Section 5. **Survival of rights.** The rights conferred on any person by this By-Law shall continue as to a person who has ceased top be a director or executive officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 6. **Amendments.** Any repeal or modification shall only be prospective and shall not effect the rights under this By-Law in effect at the time of the alleged occurrence of any action or omission to act that is the cause of any proceeding against any agent of the corporation.

Section 7. **Insurance.** To the fullest extent permitted by applicable law, the corporation, upon approval by the Board of Directors, may purchase insurance on behalf of any person required or permitted to be indemnified by this ARTICLE IV.

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Section 8. **Saving Clause.** If this ARTICLE IV or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the corporation shall nevertheless indemnify each director and executive officer to the full extent not prohibited by any applicable portion of this ARTICLE IV that shall not have been invalidated, or by any other applicable law. If this ARTICLE IV shall be invalid due to the application of the indemnification provisions of another jurisdiction, then the corporation shall indemnify each director and executive officer to the full extent under any other applicable law.

Section 9. **Certain Definitions.** For the purposes of this By-Law the following definitions shall apply:

(1) The term “proceeding” shall be broadly construed and shall include, without limitation, the investigation, preparation, prosecution, defense, settlement, arbitration and appeal of, and the giving of testimony in, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative.

(2) The term “expenses” broadly construed shall include without limitation court costs, attorneys’ fees, witness fees, amounts paid in settlement or judgment and any other costs and expenses of any nature or kind incurred in connection with any proceeding.

(3) The term “corporation” shall include, in addition to the resulting corporation, any constituent corporation (including any constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had the power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this ARTICLE IV with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

(4) References to a “director,” “executive officer,” “officer,” “employee” or “agent” of the corporation shall include, without limitation, situations where such person is serving at the request of the corporation as, respectively, a director, executive officer, officer, employee, trustee or agent of another corporation, partnership, joint venture, trust or other enterprise.

(5) References to “other enterprises” shall include employee benefit plans; references to “fines” shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to “serving at the request of the corporation” shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants and beneficiaries; of an employee benefit plan shall be deemed to have acted in a manner “not opposed to the best interests of the corporation” as referred to in this ARTICLE IV.

## ARTICLE V

### Capital Stock

Section 1. **Issuance of Stock.** The capital stock, including both authorized but previously issued shares, as well as treasury shares, may be issued for such consideration, not less than par value thereof in the case of shares having par value, as shall be fixed from time to time by the Board of Directors.

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Section 2. **Transfer of Shares.** The shares of the corporation shall be transferable on the books of the corporation only upon the surrender of each certificate representing the same, properly endorsed by the registered holder or by his duly authorized attorney, or with separate written assignment accompanying the certificate.

Section 3. **Certificates of stock.** Certificates signed by the President or any Vice-President and by the Secretary or any assistant Secretary of the corporation, shall represent the shares of the corporation, and all such signatures may be facsimiles thereof. The certificates shall be in such form as shall be approved by the Board of Directors.

#### ARTICLE VI

##### Miscellaneous

Section 1. **Fiscal Year.** The fiscal year of the corporation shall begin on the first day of January of each year and end on the thirty-first day of December.

#### ARTICLE VII

##### Amendments

These By-Laws may be altered, amended, or repealed by the Board of Directors subject to the power of the stockholders, by the affirmative vote of a majority of the stockholders entitled to vote, at any meeting, to change or repeal such By-Laws, provided that notice of such proposed amendment shall have been given in the notice of such meeting. The Board of Directors shall not make or alter any By-Laws fixing their number, qualifications, or term of office.

/s/ Lawrence W. Gadbaw

**Lawrence W. Gadbaw, President and CEO**

/s/ Gerald D. Rice

**Gerald D. Rice, Vice-President, Secretary and Treasurer**

Dated: \_\_\_\_\_

I hereby certify that the foregoing is a true and correct copy of the original By-Laws of BIODRAIN MEDICAL, INC., which is on record in the minute book of the corporation.

/s/ Gerald D. Rice

**Gerald D. Rice, Secretary**

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## EMPLOYMENT AGREEMENT

This Agreement, made and entered into effective the 4<sup>th</sup> day of October, 2006, by and between Kevin R. Davidson, an individual residing at 16771 Ironwood Circle, Lakeville, MN 55044, ("Employee"), and BioDrain Medical Incorporated, 699 Minnetonka Highlands Lane, Orono, MN 55356-9728, a Minnesota corporation ("Company").

**WITNESSETH:**

**WHEREAS**, the Company desires to employ the Employee to render services for the Company as its President & Chief Executive Officer (CEO) on the terms and conditions hereinafter set forth, and the Employee desires to be employed by the Company on such terms and conditions;

**NOW, THEREFORE**, in consideration of the premises and of the mutual covenants and agreements contained herein, the parties hereby agree as follows:

1. **Employment.** The Company agrees to employ the Employee for a period of four (4) years from the date of this Agreement unless Employee violates the terms set forth in Paragraph 7: Termination for Cause or the Employee voluntarily resigns. The term is automatically renewable annually except by action of the Board of Directors.
2. **Duties.** The Employee will hold the title of President and CEO and shall report to the Board of Directors of the Company. The general scope of the Employee's duties shall include:

- a. Exhibit A.

The Employee's duties may be modified from time to time by mutual agreement between the Employee and the Board of Directors as they deem to be in the best interest of the Company, provided that the Employee's duties shall be commensurate with those of a senior executive of the Company.

3. **Extent of Services.** The Employee shall devote his full attention, energy and skills to the business of the Company and use his best efforts to fully and competently perform the duties of his office; with the exception of the time period from the date of this Agreement to December 31, 2006, during which time the Employee has prior part-time engagement responsibilities. The Employee has assured the Company that such prior responsibilities will not interfere with performance of his obligations to the Company.

4. **Compensation.**

- a. **Base Salary.** \$150,000 per year. Initial payment will be monthly and will be according to the Company's salary schedule, which will begin as funds become available, but not later than when cumulative new funding has reached a minimum of \$250,000. With the exceptions noted below, annual reviews will determine future salary and bonus amounts, as a part of Company compensation procedures. The following exceptions are

- Upon reaching total new funding of \$1,000,000, annual salary shall increase to \$170,000 beginning with the next full month.

- Upon reaching a cumulative total of \$5,000,000 in net sales, annual salary shall increase to \$200,000 per year beginning with the next full month.

- b. Bonus.** The Employee will be eligible for participation in the Company's bonus plan when completed and approved by the Board of Directors and the Compensation Committee. The following bonus schedule is in force:

Initial grant of 50,000 shares of BioDrain common stock upon signing the Agreement. Such stock will include an anti-dilution protection amounting to 3.81% (percent) of the Company's outstanding fully diluted common stock up to the completion of the first \$1,000,000 in new funding raised. This would mean that, at \$1.00 per share for 1,000,000 new shares of common stock, an additional 45,536 shares of common stock would be issued to Employee.

- Additional 50,000 shares of BioDrain common stock upon reaching the first \$200,000 of new funding. (170,000 New)
- Additional 50,000 shares of BioDrain common stock upon reaching an additional \$500,000 of new funding, or a total of \$700,000 of new funding.
- \$25,000 in cash or BioDrain common stock having an equal market value upon reaching an additional \$300,000 in new funding, or a total of \$1,000,000 of new funding.
- Total potential shares as a result of these milestones would equal 220,536 shares, assuming the final milestone was taken in shares, not cash.

- c. Executive Compensation.** The Employee will be eligible for executive compensation such as stock, stock options, deferred compensation, life insurance, etc., as approved by the Board of Directors and the Compensation Committee when such executive compensation plan is completed.

**5. Additional Benefits.**

- a. Automobile.** The Company shall reimburse the Employee for deductible automobile mileage or auto allowance according to its Expense Reporting Procedures.
- b. Business Expense.** The Company will reimburse the Employee for all reasonable, deductible and substantiated business expenses per its Expense Reporting Procedures. This includes, but is not limited to such expenses as telephone, cell phone, home office, business meetings, etc.
- c. Benefits.** The Employee will be eligible for the Company's benefits package and executive benefits listed in Paragraph 4.c. which will be implemented as funds become available and upon development and approval by the Compensation Committee.
- d. Vacation.** The Employee will receive a minimum of three weeks' vacation per year or as per the executive vacation plan when written, whichever is greater.

- e. **Education.** The Company will support the Employee in his pursuit of continuing education provided sufficient cash flows support tuition reimbursement and he meets the conditions and terms of the tuition reimbursement guidelines as outlined in the Employee Manual when written.
- 6. **Board of Directors Membership.** The Employee, as of the date of the Agreement, will become a member of the Board of Directors of the Company and will have the option to submit for Board approval one additional Board member.
- 7. **Termination for Cause; Voluntary Resignation.** The Company may terminate this Agreement for “cause” as defined hereinafter at any time during the term of the Employee’s employment, and the Employee may voluntarily resign from his employment with the Company at any time. For this purpose, the term “cause” shall mean any of the following:
  - a. the continued noncompliance by the Employee with the Company’s directors’ written instructions, directives or regulations, after fifteen (15) days’ written notice of such noncompliance from the Company; a breach by the Employee of any material term of this Agreement, which breach is not cured within seven (7) days of written notice thereof from the Company; unsatisfactory performance of employment duties, obligations and work and production standards that is not corrected within thirty (30) days after written notice of such unsatisfactory performance from the Company, or such longer period as specified in such notice;
  - b. malfeasance, misfeasance, or nonfeasance by the Employee in the course of his employment;
  - c. fraud or a criminal act committed by the Employee, provided such criminal act adversely affects the business of the Company;
  - d. any breach of the Employee of his fiduciary obligations to the Company or any act or omission of the Employee constituting a breach of his obligations contained in the Confidentiality and Non-Competition Agreement attached hereto as Exhibit B and incorporated herein as reference; and;
  - e. the Employee’s voluntary resignation at any time.

In the event of a termination for cause, as defined herein, the Employee shall only be entitled to receive payment of base salary, adjusted pro-rata to the date of such termination, subject to offset, and to the extent permitted, for any amounts then owed to the Company by the Employee. The Employee shall have absolutely no right to receive or retain any other payment or compensation whatsoever under this Agreement, regardless of the term of the employment then elapsed. The Employee’s rights and obligations regarding stock options and shares of the Company’s common stock owned by the Employee shall be determined in accordance with and be governed by the Shareholder Agreement and the Company’s Stock Option Plan.

- 8. **Termination without Cause.** In the event that the Employee’s employment is terminated by the Company without cause, as cause defined in Section 7 hereof, the Employee shall be entitled to receive from the Company an amount equal to twelve (12) months of the Employee’s annual base salary for the year of termination, payable in equal installments divided among the Company’s standard payroll periods over six (6) months following that in which termination occurs. The consideration provided in this Section is conditioned upon the

Employee's return to the Company in good condition any and all property owned by or belonging to the Company and the Employee's disclosure to the Company of any passwords or procedures necessary for the Company's access to any computer software or computer programs. This consideration provided in this Section is further conditioned on the Employee's continued complete adherence to the terms of the Employee's Confidentiality and Non-competition Agreement for two years from the date of termination. All payments made hereunder will be subject to all required withholding and reporting. The Employee's rights and obligations regarding any shares of the Company's common stock owned by the Employee shall be determined in accordance with and be governed by the Shareholder Agreement.

9. **Termination for Good Reason.** Employee may terminate this Agreement for Good Reason. The Employee may also terminate the Agreement hereunder without Good Reason by giving a Notice of Termination during the year immediately following a Change in Control of more than 40% of the Company's outstanding stock (a "Special Termination"), with the exception of stock issued by the Company, provided that, with the exception of dilution, Employee is adversely affected by such Change in Control. Upon a Good Reason termination or a Special Termination, the Executive shall become entitled to the payments and benefits provided in Paragraph 8 hereof in accordance with the terms of such Paragraph.
10. **Death.** Upon the death or disability of the Employee, bonus and other related benefits will be paid pro-rata for the current year.
11. **Sale, Reorganization or Transfer of Ownership.** In the event the Company is sold, or if majority ownership of the Company should pass from the existing majority shareholders, the terms of this Agreement shall remain in force. Terms of all executive employment agreements will identify the specifics for sale, reorganization or transfer of ownership, to be approved by the Compensation Committee.
12. **Insolvency or Cessation of Business.** In the event the Company becomes insolvent or ceases business due to lack of funds, this Agreement is immediately null and void and the terms and conditions are rendered non-enforceable, specifically those clauses associated with non-disclosure and non-competition.
13. **Governing Law.** This agreement will be governed by and construed in accordance with the laws of the State of Minnesota.
14. **Notices.** Any notice or other communication required or permitted hereunder shall be in writing and shall be deemed to have been given, when received, if delivered by hand or by telegram, or three (3) working days after deposited, if placed in the mails for delivery by certified mail, return receipt requested, postage prepaid and addressed to the appropriate party at the following address:

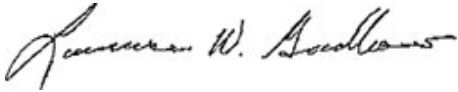
Company:	BioDrain Medical Inc. Attention: Lawrence W. Gadbaw, Chairman 699 Minnetonka Highlands Lane Orono, MN 55356-9728
Employee:	Kevin R. Davidson 16771 Ironwood Circle Lakeville, MN 55044

Addresses may be changed by written notice given pursuant to this Section; however any such notice shall not be effective, if mailed, until three (3) working days after depositing in the mails or when actually received, whichever occurs first.


15. **Other Agreements.** This Agreement contains the entire agreement between the parties concerning terms of employment and supersedes at the effective date hereof any other agreement, written or oral.
16. **Modification and Waiver.** A waiver by either party of a breach of any provision of this Agreement shall not operate as or be construed as a waiver of any subsequent breach thereof.
17. **Binding Effect, Assigns, Successors, Etc.** This Agreement shall be binding upon the parties hereto and their respective heirs, representatives, successors and assigns, and shall continue in full force unless and until terminated by the mutual agreement of all parties hereto.
18. **Savings Clause.** If any provision, portion or aspect of this Agreement is determined to be void, or voidable by any legislative, judicial or administrative action as properly applied to this Agreement, then this Agreement shall be construed to so limit such provision, portion or aspect thereof to render same enforceable to the greatest extent permitted by or in the relevant jurisdiction.
19. **Headings.** The headings of this Agreement are intended solely for convenience and reference, and shall give no effect in the construction or interpretation of this Agreement.
20. **Survival.** Employee understands and agrees that portions of the provisions of this Agreement extend beyond termination of the Employee's employment and shall continue in full force and effect after such termination of employment or termination of this Agreement.
21. **Execution.** This Agreement may be executed in two (2) or more counterparts, and each such counterpart deemed an original. Original signatures on copies of the Agreement transmitted by facsimile will be deemed originals for all purposes hereunder.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed effective as of the day and year first written above.

BioDrain Medical Incorporated

By: 

\_\_\_\_\_  
Lawrence W. Gadbow, Chairman

By: 

\_\_\_\_\_  
Kevin R. Davidson, Employee

## EMPLOYMENT AGREEMENT

This Agreement, made and entered into effective the 18<sup>th</sup> day of October, 2006, by and between Gerald D. Rice, an individual residing at 6413 Josephine Avenue, Edina, MN 55439 ("Employee"), and BioDrain Medical Incorporated, 699 Minnetonka Highlands Lane, Orono, MN 55356-9728, a Minnesota corporation ("Company").

**WITNESSETH:**

**WHEREAS**, the Company desires to employ the Employee to render services for the Company as its Chief Financial Officer (CFO) and Secretary on the terms and conditions hereinafter set forth, and the Employee desires to be employed by the Company on such terms and conditions;

**NOW, THEREFORE**, in consideration of the premises and of the mutual covenants and agreements contained herein, the parties hereby agree as follows:

1. **Employment.** The Company agrees to employ the Employee for a period of four (4) years from the date of this Agreement unless Employee violates the terms set forth in Paragraph 7: Termination for Cause or the Employee voluntarily resigns. The term is automatically renewable annually except by action of the Board of Directors.
2. **Duties.** The Employee will hold the title of CFO and Secretary and shall report to the President of the Company. The general, scope of the Employee's duties shall include:

- a. Exhibit A

The Employee's duties may be modified from time to time by the President and/or Board of Directors as they deem to be in the best interest of the Company, provided that the Employee's duties shall be commensurate with those of a senior executive of the Company.

3. **Extent of Services.** The Employee shall devote his full attention, energy and skills to the business of the Company and use his best efforts to fully and competently perform the duties of his office.

4. **Compensation.**

- **Base Salary.** \$110,000 per year Initial payment will be monthly and will be according to the Company's salary schedule, which will begin as funds become available, but not later than when cumulative new funding has reached a minimum of \$250,000. Annual reviews will determine future salary and bonus amounts, as a part of Company compensation procedures.
  - **Bonus.** The Employee will be eligible for participation in the Company's bonus plan when completed and approved by the Board of Directors and the Compensation Committee.
- b. **Executive Compensation.** The Employee will be eligible for executive compensation such as stock, stock options, deferred compensation, life insurance, etc., as approved by the

Board of Directors and the Compensation Committee when such executive compensation plan is completed.

5. **Additional Benefits.**

- a. **Automobile.** The Company shall reimburse the Employee for deductible automobile mileage or auto allowance according to its Expense Reporting Procedures.
- b. **Business Expense.** The Company will reimburse the Employee for all reasonable, deductible and substantiated business expenses per its Expense Reporting Procedures. This includes, but is not limited to such, expenses, as telephone, cell phone, home office, business meetings, etc.
- c. **Benefits.** The Employee will be eligible for the Company's benefits package and executive benefits listed in Paragraph 4.c. which will be implemented as funds become available and upon development and approval by the Compensation Committee.
- d. **Vacation.** The Employee will receive a minimum of three weeks' vacation per year or as per the executive vacation plan when written, whichever is greater.
- e. **Education.** The Company will support the Employee in his pursuit of continuing education provided sufficient cash flows support tuition reimbursement and he meets the conditions and terms of the tuition reimbursement guidelines as outlined in the Employee Manual when written

6. **Board of Directors Membership.** The Employee will continue his membership on the Board of Directors of the Company.

7. **Termination for Cause; Voluntary Resignation.** The Company may terminate this Agreement for "cause" as defined hereinafter at any time during the term of the Employee's employment, and the Employee may voluntarily resign from his employment with the Company at any time. For this purpose, the term "cause" shall mean any of the following:

- a. the continued noncompliance by the Employee with the Company's directors' written instructions, directives or regulations, after fifteen (15) days' written notice of such noncompliance from the Company; a breach by the Employee of any material term of this Agreement, which breach is not cured within seven (7) days of written notice thereof from the Company; unsatisfactory performance of employment duties, obligations and work and production standards that is not corrected within thirty (30) days after written notice of such unsatisfactory performance from the Company, or such longer period as specified in such notice;
- b. malfeasance, misfeasance, or nonfeasance by the Employee in the course of his employment;
- c. fraud or a criminal act committed by the Employee, provided such criminal act adversely affects the business of the Company;
- d. any breach of the Employee of his fiduciary obligations to the Company or any act or omission of the Employee constituting a breach of his obligations contained in the

e. the Employee's voluntary resignation at any time.

In die event of a termination for cause, as defined herein, the Employee shall only be entitled to receive payment of base salary, adjusted pro-rata to the date of such termination, subject to offset, and to the extent permitted, for any amounts then owed, to the Company by the Employee. The Employee shall have absolutely no right to receive or retain any other payment or compensation whatsoever under this Agreement, regardless of the term of the employment then elapsed. The Employee's rights and obligations regarding stock options and shares of the Company's common stock owned by the Employee shall be determined in accordance with and be governed by the Shareholder Agreement and the Company's Stock Option Plan.

8. **Termination without Cause.** In the event that the Employee's employment is terminated by the Company without cause, as cause defined in Section 7 hereof, the Employee shall be entitled to receive from the Company an amount equal to twelve (12) months of the Employee's annual base salary for the year of termination, payable in equal installments divided among the Company's standard payroll periods over six (6) months following that in which termination occurs. The consideration provided in this Section is conditioned, upon the Employee's return to the Company in good condition any and all property owned by or belonging to the Company and the Employee's disclosure to the Company of any passwords or procedures necessary for the Company's access to any computer software or computer programs. This consideration provided in this Section is further conditioned on the Employee's continued complete adherence to the terms of the Employee's Confidentiality and Non-competition Agreement for two years from the date of termination. All payments made hereunder will be subject to all required withholding and reporting. The Employee's rights and obligations regarding any shares of the Company's common stock owned by the Employee shall be determined in accordance with and be governed by the Shareholder Agreement
9. **Termination for Good Reason.** Employee may terminate this Agreement for Good Reason. The Employee may also terminate the Agreement hereunder without Good Reason by giving a Notice of Termination during the year immediately following a Change in Control of more than 40% of the Company's outstanding stock (a "Special Termination"), with the exception of stock issued by the Company, provided that, with the exception of dilution, Employee is adversely affected by such Change in Control. Upon a Good Reason termination or a Special Termination, the Executive shall become entitled to the payments and benefits provided in Paragraph 8 hereof in accordance with the terms of such Paragraph..
10. **Death.** Upon the death or disability of the Employee, bonus and other related benefits will be paid pro-rata for the current year.
11. **Sale, Reorganization or Transfer of Ownership.** In the event the Company is sold, or if majority ownership of the Company should pass from the existing majority shareholders, the terms of this Agreement shall remain in force. Terms of all executive employment agreements will identify the specifics for sale, reorganization or transfer of ownership, to be approved by the Compensation Committee.
12. **Insolvency or Cessation of Business.** In the event the Company becomes insolvent or ceases business due to lack of funds, this Agreement is immediately null and void and the terms and conditions are rendered non-enforceable, specifically those clauses associated with non-disclosure and non-competition.



13. **Governing Law.** This agreement will be governed by and construed in accordance with the laws of the State of Minnesota.
14. **Notices.** Any notice or other communication required or permitted hereunder shall be in writing and shall be deemed to have been given, when received, if delivered by hand or by telegram, or three (3) working days after deposited, if placed in the mails for delivery by certified mail, return receipt requested, postage prepaid and addressed to the appropriate party at the following address:

Company: BioDrain Medical Inc.  
Attention: Lawrence W. Gadbow, Chairman  
699 Minnetonka Highlands Lane  
Orono, MN 55356-9728

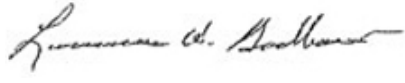
Employee: Gerald D. Rice  
6413 Josephine Avenue  
Edina, MN 55439

Addresses may be changed by written notice given pursuant to this Section; however any such notice shall not be effective, if mailed, until three (3) working days after depositing in the mails or when actually received, whichever occurs first.

15. **Other Agreements.** This Agreement contains the entire agreement between the parties concerning terms of employment and supersedes at the effective date hereof any other agreement, written or oral.
16. **Modification and Waiver.** A waiver by either party of a breach of any provision of this Agreement shall not operate as or be construed as a waiver of any subsequent breach thereof.
17. **Binding Effect, Assigns, Successors, Etc.** This Agreement shall be binding upon the parties hereto and their respective heirs, representatives, successors and assigns, and shall continue in full force unless and until terminated by the mutual agreement of all parties hereto.
18. **Savings Clause.** If any provision, portion or aspect of this Agreement is determined to be void, or voidable by any legislative, judicial or administrative action as properly applied to this Agreement then this Agreement, shall be construed to so limit such provision, portion or aspect thereof to render same enforceable to the greatest extent permitted by or in the relevant jurisdiction.
19. **Headings.** The headings of this Agreement are intended solely for convenience and reference, and shall give no effect in the construction or interpretation of this Agreement.
20. **Survival.** Employee understands and agrees that portions of the provisions of this Agreement extend, beyond termination of the Employee's employment and shall continue in full force and effect after such termination of employment or termination of this Agreement.
21. **Execution.** This Agreement may be executed in two (2) or more counterparts, and each such counterpart deemed an original. Original signatures on copies of the Agreement transmitted by facsimile will be deemed originals for all purposes hereunder.


IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed effective as of the day and year first written above.

BioDrain Medical Incorporated

By: 

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Lawrence W. Gadbaw, Chairman

By: 

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Gerald D. Rice, Employee

CONFIDENTIAL

Page 1 of 7

June 16, 2008

## EMPLOYMENT AGREEMENT

This Agreement, made and entered into effective the 16<sup>th</sup> of June 2008 by and between Chad Ruwe, an individual residing at 5220 Oaklawn Avenue, Edina, MN 55424 ("Employee"), and BioDrain Medical Incorporated, 699 Minnetonka Highlands Lane, Orono, MN 55356-9728, a Minnesota corporation ("Company").

**WITNESSETH:**

**WHEREAS**, the Company desires to employ the Employee to render services for the Company as its Executive Vice President of Operations on the terms and conditions hereinafter set forth, and the Employee desires to be employed by the Company on such terms and conditions;

**NOW, THEREFORE**, in consideration of the promises and of the mutual covenants and agreements contained herein, the parties hereby agree as follows:

1. **Employment.** Upon execution of an investment in the Company by the Employee of \$200,000, the Company agrees to employ the Employee for a period of two (2) years from the date of this Agreement: unless Employee violates the terms set forth in Paragraph 7: Termination by the Company for Cause or the Employee voluntarily resigns. The term is automatically renewable annually except by action of the President or the Board of Directors
2. **Duties.** The Employee will hold the title of Executive Vice President of Operations and shall report to the President/CEO of the Company. The general scope of the Employee's duties shall include: to oversee and manage all areas relating to interaction with the FDA, all manufacturing functions and capabilities, all R&D functions, all operational aspects relating to Intellectual Property, all logistical considerations for the Company, including but not limited to service and installation of the FMS (Fluid Management System) unit and distribution of cleaning fluid, overseeing all related vendors and consultants, and other Operations-related duties and functions that may arise from time to time.

The Employee's duties may be modified from time to time by mutual agreement between the Employee and the President/CEO as they deem to be in the best interest of the Company, provided that the Employee's duties shall be commensurate with those of a senior executive of the Company.

3. **Extent of Services.** The Employee shall devote his full attention, energy and skills to the business of the Company and use his best efforts to fully and competently perform the duties of his office.
  4. **Compensation.**
    - a. **Base Salary.** \$135,000 per year. Initial payment will be monthly and will be according to the Company's salary schedule. Employee will have an informal performance review in six (6) months and will receive annual salary reviews and potential increases, based on Employee's performance.
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- b. Bonus.** The Employee will receive a one-time signing bonus of \$15,000 upon execution of this Agreement in recognition of his investment in the Company. The Employee will be eligible for participation in the Company's bonus plan when completed and approved by the Board of Directors and the Compensation Committee. Bonus will be paid at the first payroll period after employment.
- c. Stock Options.** The Employee will receive total stock options to purchase 250,000 shares of the Company's common stock at \$.35 per share. This will be governed by a Company Stock Option Plan to be established by the Company in a timely manner upon hiring of the Employee. Vesting of the 250,000 options will be as follows: 50,000 shares upon execution of this Agreement; the balance in achievement of the following specific milestones:
  - An additional 50,000 shares to vest upon submission of the 510(k) to the FDA for approval of the FMS unit,
  - An additional 50,000 shares to vest upon approval of the 510(k) by the FDA,
  - An additional 50,000 shares to vest upon sale of the first commercial-ready FMS unit,
  - An additional 50,000 shares to vest upon sale of the 50<sup>th</sup> commercial-ready FMS unit.

The total of these options, assuming all milestones are achieved, will be 250,000, as described above.

- d. Executive Compensation.** The Employee will be eligible for executive compensation such as bonus, stock, stock options, deferred compensation, life insurance, etc., as approved by the Board of Directors and the Compensation Committee when such executive compensation plan is completed

**5. Additional Benefits.**

- a. Automobile.** The Company shall reimburse the Employee for deductible automobile mileage or auto allowance according to its Expense Reporting Procedures.
  - b. Business Expense.** The Company will reimburse the Employee for all reasonable, deductible and substantiated business expenses per its Expense Reporting Procedures. This includes, but is not limited to such expenses as telephone, cell phone, home office, business meetings, etc.
  - c. Benefits.** The Employee will be eligible for the Company's benefits package and executive benefits listed in Paragraph 4.d. which will be implemented as funds become available and upon development and approval by the Compensation Committee. In lieu of, and until a company-sponsored medical benefits program is installed, Employee will receive a monthly amount of \$1,000.
  - d. Vacation.** The Employee will receive a minimum of three (3) weeks' vacation per year or as per the executive vacation plan when written, whichever is greater.
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- e. **Education.** The Company will support the Employee in his pursuit of continuing education provided sufficient cash flows support tuition reimbursement and he meets the conditions and terms of the tuition reimbursement guidelines as outlined in the Employee Manual when written.
  - 5. **Board of Directors Membership.** The Employee, as soon as Myron Schuster is paid and removed from the Board, which action is being pursued as of this writing, will become a member of the Board of Directors of the Company. In any event, regardless of the handling of the situation with Mr. Schuster, Employee shall become a Board member within 30 days of this date.
  - 6. **Non-Compete.** Throughout the period of Employee's employment with the Company, and thereafter for a period of one (1) year, Employee shall not, for any reason whatsoever, directly or indirectly, plan, organize, advise, own, manage, operate, control, be employed by, participate in or be connected in any manner with the ownership, management, operation or control of any business of the following type: the development, marketing and sales of medical devices dedicated or designed to safely manage and dispose of contaminated fluids generated in the operating room and other similar medical locations. For purposes of this Agreement, indirect competition shall be deemed to include any activity by Employee in aid of a competing Business, including but not limited to, being a partner, shareholder, officer, director, member, owner, manager, governor, agent, employee, advisor, consultant or independent contractor of any competing Business.
  - 7. **Intellectual Property.** Employee agrees that all right, title and interest of every kind and nature whatsoever, whether now known or unknown, in and to any "Intellectual Property," defined to include, but not be limited to, any patent rights, trademarks, copyrights, ideas, creations and properties invented, created, written, developed, furnished, produced or disclosed by Employee in the course of rendering his/her services to Company (both before the execution of this Agreement and thereafter) shall, as between the parties, be and remain the sole and exclusive property of Company for any and all purposes and uses whatsoever, and Employee shall have no right, title or interest of any kind or nature therein or thereto, or in and to any results and proceeds therefrom. Employee agrees to assign, and hereby expressly and irrevocably assigns, to Company all worldwide rights, title and interest, in perpetuity, in respect of any and all rights Employee may have or acquire in the Intellectual Property. The assignment of the rights as above shall not lapse if Company has not exercised its rights under the assignment for any period of time or in any jurisdiction or territory. Pursuant to Section 181.78 of the Minnesota Statutes, the preceding sentence does not apply to an invention for which no equipment supplies, facility or trade secret information of Company was used and which was developed entirely on the Employee's own time, and (1) which does not relate (a) directly to the business of Company or (b) to Company's actual or demonstrably anticipated research or development, or (2) which does not result from any work performed by Employee for Company. To the extent any of the rights, title, and interest in and to the Intellectual Property cannot be assigned to Company (and to the extent any of Employee's retained rights under Section 181.78 were incorporated by Employee (directly or indirectly) in any of Company's past, current or future products or services), Employee hereby grants to Company an exclusive, royalty-free, transferable, perpetual, irrevocable, unrestricted, worldwide license (with rights to sublicense through one or more tiers of sublicensees) to such non-assignable (or non-assigned) rights. To the extent any rights, title and interest in and to Intellectual Property rights can be neither assigned nor so licensed by Employee to Company, Employee hereby irrevocably waives and agrees never to assert such non-assignable and non-licensable rights, title and interest against Company, any of Company's successors in interest, and the customers
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and licensees of either. Further, Employee agrees to waive, and hereby waives, any “moral rights” Employee may have or may obtain in the Intellectual Property. Employee further agrees to assist Company in every proper way to apply for, obtain, perfect and enforce rights in the Intellectual Property in any and all countries, and to that end Employee will execute all documents for use in applying for, obtaining and perfecting such rights and enforcing same, as Company may desire, together with any assignments thereof to Company or persons designated by it. Employee appoints Company as its attorney in fact to execute any documents necessary to achieve such results. To the maximum extent possible, Company shall be shown in all documentation as the owner of all rights in the Intellectual Property

8. **Termination by Company for Cause.** The Company may terminate Employee’s employment for “cause” at any time during the Term. For purposes of this section 8., the term “cause” shall mean any of the following:
- o The material non-compliance by the Employee with written instructions, directions or regulations of the Board of Directors applicable to Employee, the breach by Employee of any material term of this Agreement, or the unsatisfactory performance by Employee of Employee’s duties, obligations, work and production standards, and the failure of Employee to correct such non-compliance, breach or unsatisfactory performance within thirty (30) days after receipt by Employee of written notice of the same by the Company;
  - o Any willful or grossly negligent act by the Employee having the effect of injuring in a material way the Company as determined by the affirmative vote of the majority of the members of the Board of Directors (excluding Employee);
  - o The commission by the Employee of fraud or a criminal act that adversely affects the business of the Company; or,
  - o The determination by an affirmative vote of the majority of the members of the Board of Directors (excluding Employee), after a reasonable and good faith investigation by the Company following a written allegation by another employee of the Company, that Employee engaged in some form of harassment or other improper conduct prohibited by law, unless such actions were specifically directed by the Board.

In the event of a termination for cause, as defined herein, the Employee shall only be entitled to receive payment of base salary, adjusted pro-rata to the date of such termination, subject to offset, and to the extent permitted, for any amounts then owed to the Company by Employee. The Employee shall have absolutely no right to receive or retain any other payment or compensation whatsoever under this Agreement, regardless of the term of the employment then elapsed. The Employee’s rights and obligations regarding stock options and shares of the Company’s common stock owned by Employee shall be determined in accordance with and be governed by the Shareholder Agreement and the Company’s Stock Option Plan as well as taking into account the completion (or non-completion) of the aforementioned milestones. Only options that have vested as a result of completed milestones shall be eligible for ownership by Employee.

9. **Termination by Company without Cause.** In the event the Employee’s employment is terminated by the Company without cause, as “cause” is defined in section 8 hereof, Employee
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shall be entitled to receive from the Company as severance pay in an amount equal to twelve (12) months of Employee's Base Salary then in effect at the time of termination, payable in six (6) equal monthly installments, commencing on the first day of the month following termination and continuing on the same day of each month thereafter until paid in full. The Employee shall receive bonus payment on a pro-rata basis for the portion of the fiscal year at termination. The consideration provided in this section is conditioned upon the Employee's return to the Company of any and all property belonging to the Company in Employee's possession or control and Employee's disclosure to the Company of any information known to Employee and necessary for the Company to access any computer software or programs of the Company controlled by Employee. In lieu of a Shareholders Agreement all non-vested stock options shall immediately be vested. Outplacement services (Lee Hecht Harrison or similar) shall be available for Employee and paid by Company upon mutual agreement between Employee and President & CEO for an amount of \$15,000.00 or one (1) year. Outplacement services will be paid by the Company directly unless otherwise determined then from the Company to the Employee.

- 10. Termination by Employee for Good Reason.** Employee may terminate his employment at any time during the Term for good reason. For purposes of this Agreement, "good reason" shall mean (i) any material breach by the Company of this Agreement that is not cured by the Company within thirty (30) days after receipt of written notice from Employee of such material breach, (ii) any material diminution or adverse (to Employee) change in the duties, responsibilities, rights, privileges or the reporting relationships, which were applicable to and enjoyed by the Employee at the time of such diminution of change, without the consent of the Employee, except as a result of the termination of Employee's employment by the Company as provided in section 8. hereof, (iii) any requirement from the Board of Directors that the Employee must relocate his office outside the Twin Cities metropolitan area, or (iv) by Employee giving a Notice of Termination during the year immediately following a Change in Control of more than 40% of the Company's outstanding stock (a "Special Termination"), with the exception of stock issued by the Company, provided that, with the exception of dilution, Employee is adversely affected by such Change in Control. In the event of a termination by Employee of his employment as provided in this section 11, Employee shall be entitled to severance pay and benefits as provided in section 9 hereof.
  - 11. Termination by Employee.** Employee may terminate employment at any time during the Term for any reason with one (1) month notice. Employee agrees to aid in transition and exit from the Company causing no harm or hardship during such transition. Employee is bound by Paragraph 6 of this Agreement. Employee is not eligible for salary continuation or bonus if he voluntarily resigns for reasons other than "good reason" as defined in section 10.
  - 12. Sale, Reorganization or Transfer of Ownership.** In the event the Company is sold, or if majority ownership of the Company should pass from the existing majority shareholders, the terms of this Agreement shall remain in force. Terms of all executive employment agreements will identify the specifics for sale, reorganization or transfer of ownership, to be approved by the Compensation Committee. All non-vested stock options, whether milestone has been achieved or not, shall become vested with the completion of the sale.
  - 13. Insolvency or Cessation of Business.** In the event the Company becomes insolvent or ceases business due to lack of funds, this Agreement is immediately null and void and the terms and conditions are rendered non-enforceable, specifically those clauses associated with non-disclosure and non-competition.
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14. **Governing Law.** This agreement will be governed by and construed in accordance with the laws of the State of Minnesota.
15. **Notices.** Any notice or other communication required or permitted hereunder shall be in writing and shall be deemed to have been given, when received, if delivered by hand or by telegram, or three (3) working days after deposited, if placed in the mails for delivery by certified mail, return receipt requested, postage prepaid and addressed to the appropriate party at the following address:

Company: BioDrain Medical Inc.  
Attention: Lawrence W. Gadbow, Chairman  
699 Minnetonka Highlands Lane  
Orono, MN 55356-9728

Employee: Chad Ruwe  
5220 Oaklawn Avenue  
Edina, MN 55424

Addresses may be changed by written notice given pursuant to this Section; however any such notice shall not be effective, if mailed, until three (3) working days after depositing in the mails or when actually received, whichever occurs first.

16. **Other Agreements.** This Agreement contains the entire agreement between the parties concerning terms of employment and supersedes at the effective date hereof any other agreement, written or oral.
17. **Parties and Interest.** This Agreement is personal to Executive, and Executive may not delegate his duties or assign his rights hereunder. This Agreement shall inure to the benefit of, and be binding upon, the parties hereto and their respective heirs, legal representatives, successors and permitted assigns.
18. **Modification and Waiver.** A waiver by either party of a breach of any provision of this Agreement shall not operate as or be construed as a waiver of any subsequent breach thereof.
19. **Binding Effect, Assigns, Successors, Etc.** This Agreement shall be binding upon the parties hereto and their respective heirs, representatives, successors and assigns, and shall continue in full force unless and until terminated by the mutual agreement of all parties hereto.
20. **Savings Clause.** If any provision, portion or aspect of this Agreement is determined to be void, or voidable by any legislative, judicial or administrative action as properly applied to this Agreement, then this Agreement shall be construed to so limit such provision, portion or aspect thereof to render same enforceable to the greatest extent permitted by or in the relevant jurisdiction.
21. **Headings.** The headings of this Agreement are intended solely for convenience and reference, and shall give no effect in the construction or interpretation of this Agreement.
22. **Survival.** Employee understands and agrees that portions of the provisions of this Agreement extend beyond termination of the Employee's employment and shall continue in full force and effect after such termination of employment or termination of this Agreement.
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- 23. **Execution.** This Agreement may be executed in two (2) or more counterparts, and each such counterpart deemed an original. Original signatures on copies of the Agreement transmitted by facsimile will be deemed originals for all purposes hereunder.
- 24. **Confidential.** Company and Employee agree to keep the terms and conditions of this Agreement confidential during the terms of the Agreement and for two (2) years after termination of Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed effective as of the day and year first written above.

BioDrain Medical Incorporated

By:



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Kevin R. Davidson, President & CEO

By:



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Chad A. Ruwe, Employee

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## CONFIDENTIAL SEPARATION AGREEMENT AND RELEASE

THIS AGREEMENT is made and entered into between Lawrence W. Gadbow (hereinafter, "Gadbow") and BIODRAIN MEDICAL, INC., (hereinafter, "the Company").

WHEREAS, Gadbow was employed by the Company and resigned that employment August 13, 2008; and

WHEREAS, Gadbow and the Company previously entered into an Employment Agreement in conjunction with execution of the Nondisclosure and Noncompete Agreement dated October 18, 2006 and attached hereto as Exhibit A and Exhibit B; and

WHEREAS, Gadbow is currently the Chairman of the Board of Directors for the Company; and

WHEREAS, the parties agree it is in their best interests to sever the employment relationship; and

WHEREAS, the parties acknowledge no stock option plan yet exists, but hope to create one; and

WHEREAS, the purpose of this Agreement is to set forth the terms and conditions under which Gadbow and the Company will sever their employment relationship;

NOW, THEREFORE, in consideration of the recitals stated above and the mutual agreements, covenants, and provisions contained, in this Agreement, the parties agree as follows:

1. Termination. Gadbow and the Company agree that the effective date of Gadbow's termination is August 13, 2008 (the "Termination Date"). Gadbow shall be paid his regular salary and benefits through the Termination Date.

2. Payments. As consideration for the terms contained in this Agreement, including Gadbow's release of any and all claims, his agreement to maintain the confidentiality of this Agreement, and his promise to abide by the restrictive covenants set forth in his Nondisclosure and Noncompete Agreement, the Company shall pay to Gadbow the following:

- a. Gadbow's regular salary from the Termination Date through the end of August 2008.
  - b. The amount of Forty-Six Thousand Dollars (\$46,000), less applicable withholdings for taxes and any other benefits typically deducted from Gadbow's salary (the "Accrued Salary Payment"). The Accrued Salary Payment shall be payable in equal monthly installments of Two Thousand Dollars (\$2,000) (the "Monthly Payments"). The Monthly Payments shall commence only upon expiration of the rescission period described in Section 8 without the occurrence of any rescission and shall be paid, concurrently with, the Company's payroll cycle until, such time as the Accrued Salary Payment is paid in full (the "Payment Term"). If the Company is able to raise Three Million Dollars (\$3,000,000) in
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additional funds delivered to the Company before the expiration of the Payment Term, the remaining unpaid balance of the Accrued Salary Payment shall be paid in full by the Company to Gadbow within 30 days after the Investment is reached and the Company has received the funds, and the Company shall have no further obligation to make Monthly Payments. Severance payment is the balance of monthly pay from 8/14/08 to 8/31/08 in the amount of \$5,843.83, for a period of 18 days.

- c. If the Company receives the funds from the Investment, Gadbow will be eligible for an additional bonus in the amount of Twenty-Five Thousand Dollars (\$25,000), less applicable tax withholdings, to be paid within 30 days after the Company receives the funds from the Investment. The Company has no obligation to pay the \$25,000 if the Company does not receive the funds from the Investment.
- d. Gadbow shall have no right to any compensation, benefits, salary or bonus beyond that referenced in the preceding subparagraphs of this Section 2 on account of his employment or termination of employment with the Company. These sums will only be paid, however, provided the rescission period referred to in Section 8 has expired without rescission of this Agreement by Gadbow.
- e. The Company's obligation for payment of the above-referenced amounts shall cease in the event that Gadbow i) fails to sign the release in the form attached hereto as Exhibit B ("Release"), ii) rescinds the Release, or iii) breaches any portion of this Agreement. If Gadbow fails to sign the Release under this Agreement or if Gadbow breaches any portion of this Agreement, he will be obligated to repay to the Company all payments made to him under the terms of this Agreement.
- f. The Company will pay Gadbow and Gadbow will accept from the Company, in full and final settlement, the above-referenced consideration.

Gadbow agrees that he is solely responsible for any and all liability created under the federal and state tax laws and agrees to indemnify the Company and hold it harmless for all such liability or obligations, if any Further, the Company makes no warranty concerning the treatment of any sums paid hereunder under said laws and Gadbow has not relied upon any such warranty.

Gadbow understands that no additional money is to be paid or other consideration given to him on account of his employment or termination of employment with the Company other than the consideration referenced in this Agreement.

3. Continued Non-Employment Relationship. Gadbow will continue his relationship with the Company after the Termination Date as a non-employee Chairman of the Board of Directors, subject to the same rights and limitations as other members of the Board of Directors. During such time as Gadbow serves as the Chairman of the Board of Directors, the Company

shall pay Gadbow at the rate of Twenty-Four Thousand Dollars (\$24,000) per year, to be paid to Gadbow in equal monthly payments concurrently with the Company's payroll cycle.

4. Stock Options. Subject to Gadbow's execution of stock option and shareholder agreements acceptable to the Company, the Company shall grant Gadbow stock options for One Hundred Sixty Thousand (160,000) shares of common stock in the Company. The exercise price will be the fair market value of the Company at the time of grant as determined by the Board of Directors. Additionally, on each September 1 during such time as Gadbow serves as Chairman of the Board of Directors, the Company shall grant to Gadbow additional stock options for 30,000 shares of common stock, commencing on September 1 of the year following the year of Gadbow's termination of employment, the exercise price to be determined in the same manner.

If, at the time of each grant, the Company has adopted a stock option plan (an "Option Plan"), such options may, but need not, be granted pursuant to and subject to such plan. Such options:

- a. Shall be non-qualified options to purchase common stock;
- b. Shall have a term of three years from the date of grant subject to termination 90 days after death;
- c. Shall vest at grant;
- d. Shall, have no registration rights;
- e. Shall be non-transferrable except upon death;
- f. May, but need not, provide for cashless exercise (either by surrender of shares or of options);
- g. Shall be subject to adjustment, for stock splits, stock dividends, reverse splits and similar events;
- h. Shall terminate immediately if Gadbow i) fails to sign the Release, ii) rescinds the Release, or iii) breaches any portion of this Agreement;
- i. Shall not be represented by a certificate or agreement other than this Agreement unless granted pursuant to an option plan;
- j. Shall allow exercise only if, at exercise, Gadbow has paid to the Company (in addition to the exercise price), any tax withholdings required to be made;
- k. Shall be subject to Gadbow, at exercise, making customary representations regarding investment intent and agreeing to customary restrictions on transfer; and
- l. Shall not entitle Gadbow to any rights as a shareholder unless and until exercised.

5. Full Compensation. The payments that will be made on Gadbow's behalf to Gadbow for his benefit pursuant to this Agreement will compensate him for and extinguish any and all of his claims arising out of his employment with the Company or his employment termination including, but not limited to, claims for attorneys' fees and costs, and any and all claims for any type of legal or equitable relief.

6. Records, Documents and Property. Gadbow will promptly return to the Company all its property and documents provided to him as an employee to the extent he does not need the property in his capacity as Chairman of the Board.

7. General Release. In consideration of the payments and other undertakings stated herein, Gadbow will sign a separate Release in the form attached hereto as Exhibit B at the time he signs this Agreement. This Agreement shall not be interpreted or construed to limit the Release in any manner, or vice versa.

8. Rescission. Gadbow understands that he can take up to twenty one (21) days after receipt of revised Agreement to consider this Agreement before signing it. Once this Agreement is executed, Gadbow may rescind this Agreement within seven (7) calendar days to reinstate federal Age Discrimination in Employment Act claims and within fifteen (15) calendar days to reinstate Minnesota Human Rights Act claims under state law. To be effective, any rescission within the relevant time periods must be in writing and delivered to the Employer, in care of Kevin R. Davidson, BioDrain Medical, Inc., 16771 Ironwood Circle, Lakeville, MN 55044 either by hand or by mail within the 15-day period. If sent by mail, the rescission must be (1) postmarked within the 15-day period; (2) properly addressed to the Employer; and (3) sent by certified mail, return receipt requested.

If Gadbow gives notice of rescission within the 15-day time period, he shall no longer be entitled to the payments or benefits referred to in Section 2 or the grant of options referred to in Section 4 and shall return any payments already made to him as of the date of rescission.

9. Confidentiality of Terms. The terms of this Agreement and Release will be treated as confidential by Gadbow and he shall not disclose its terms to anyone, except Gadbow may disclose the terms of this Agreement to his legal counsel, professional accountant, tax or professional financial advisor, spouse or as may be required by law or court order. Gadbow also represents that no disclosures which would violate the terms of this provision have been made prior to its execution by Gadbow.

10. Nondisclosure and Noncompete Agreement. The restrictions contained in the Nondisclosure and Noncompete Agreement attached hereto as Exhibit A will continue in full force and effect. Gadbow confirms his commitments to those restrictions and recognizes that the payments in Section 2 and the grant of options in Section 4 above as further consideration for his promise to abide by those restrictions. Gadbow recognizes and agrees that the Nondisclosure and Noncompete Agreements are critical components of this entire Agreement. In the event of a breach by Gadbow of the terms of this paragraph, all payments to Gadbow shall cease. Additionally, the Company's obligation to issue any remaining options shall cease, any shares issued pursuant to exercise of options shall be immediately cancelled (in such case the Company shall promptly return to Gadbow any exercise price received) and no further options shall vest.

11. Non-Admission. Nothing in this Agreement is intended to be, nor will be deemed to be, an admission of liability by the Company that it has violated any state or federal statute, local ordinance or principle of common law, or that it has engaged in any wrongdoing.

12. Non-Assignment. The parties agree that this Agreement and the Release will not be assignable by Gadbow unless the Company agrees in writing.

13. Merger/Entire Agreement. This Agreement and the Release attached as Exhibit B and the Nondisclosure and Noncompete Agreement attached as Exhibit A constitute the entire agreements between the parties with respect to the employment, association and the termination of Gadbow's employment relationship with the Company, and the parties agree that there were no inducements or representations leading to the execution of this Agreement or the Release, except as herein contained, Gadbow agrees that any and all claims which he might have had against the Company are fully released and discharged by this Agreement and the Release, and that the only claims which he may hereafter assert against the Company will be derived only from an alleged breach of the terms of this Agreement.

14. Invalidity. In case any one or more of the provisions of this Agreement shall be invalid, illegal, or unenforceable in any respect, the validity, legality, and enforceability of the remaining provisions contained in this Agreement will not in any way be affected or impaired thereby.

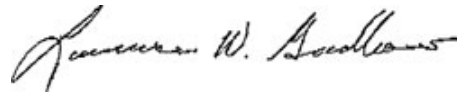
15. Voluntary and Knowing Action. Gadbow acknowledges that he has been advised of his right to be represented by his own attorney, that he has read and understands the terms of this Agreement, and that he is voluntarily entering into the Agreement to resolve any disputes with the Company, and that he has not relied upon any statements made by the Company, its agents or attorneys.

16. Governing Law and Jurisdiction. This Agreement will be construed and enforced in accordance with the laws of the State of Minnesota. Jurisdiction and venue shall only be appropriate in Hennepin County, Minnesota.

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

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the dates indicated at their respective signatures.

Dated: 09-15-08



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Lawrence W. Gadbow

BIODRAIN MEDICAL, INC.

Dated:

By: /s/ Kevin R. Davidson

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Its: President & CEO

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## RELEASE

Definitions. I intend all words used in this Release to have their plain meanings in ordinary English, Technical legal words are not needed to describe what I mean. Specific terms I use in this Release have the following meanings:

- A. I, me, and my include both me and anyone who has or obtains any legal rights or claims through me.
- B. Company, as used herein, shall at all times mean BioDrain Medical, Inc., its parents, subsidiaries, successors and assigns, their affiliated and predecessor companies, their successors and assigns, and the present or former officers, directors, employees and agents of any of them, whether in their individual or official capacities, and the current and former trustees or administrators of any pension or other benefit plan applicable to the employees or former employees of the Company, in their official and individual capacities.
- C. My Claims mean all of the rights I have now to any relief of any kind from the Company, whether or not I now know about those rights, arising out of my employment with the Company, and my employment termination, including but not limited to, claims for breach of contract; fraud or misrepresentation; violation of the Minnesota Human Rights Act, the Age Discrimination in Employment Act or other federal, state, or local civil rights laws based on age or other protected class status; defamation; intentional or negligent infliction of emotional distress; breach of the covenant of good faith and fair dealing; promissory estoppel; negligence; wrongful termination of employment; and any other claims for unlawful employment practices. However, this release shall not affect any claims which could be made under any welfare benefit plan or any pension or retirement plan through the Company.

Agreement to Release My Claims. I am receiving a substantial amount of money paid by the Company. I agree to give up all My Claims against the Company in exchange for those payments specified in the attached Confidential Separation Agreement. I will not bring any lawsuits, file any charges, complaints, or notices, or make any other demands against the Company based on My Claims. The money I am receiving is a full and fair payment for the release of all My Claims. The Company does not owe me anything in addition to what I will be receiving.

I understand and agree that, notwithstanding anything to the contrary in this Release, nothing in this Release is intended to or shall; (a) impose any condition, penalty, or other limitation affecting my right to challenge this Release; (b) constitute an unlawful release or waiver of any of my rights under any laws; or (c) prevent, impede, or interfere with my ability or right to: (i) provide truthful testimony if under subpoena to do so; (ii) file any charge or complaint (including a challenge to the validity of this Release) with, or participate in an investigation or proceeding



conducted by, the EEOC, the MDHR, or any other governmental entity; or (iii) respond as otherwise required and/or provided for by law. Notwithstanding anything to the contrary in this Release, nothing in this Release is intended to be or shall be construed to be a violation of any law.

Additional Agreements and Understandings. Even though the Company is paying me to release My Claims, the Company does not admit that it may be responsible or legally obligated to me. In fact, the Company denies that it is responsible or legally obligated for My Claims or that it has engaged in any wrongdoing.

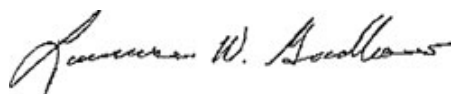
I understand that I may rescind (that is, cancel.) this Release within seven (7) calendar days of signing it to reinstate federal claims and within fifteen (15) calendar days of signing it to reinstate state claims. To be effective, my rescission must be in writing and delivered to the Company in care of Kevin R. Davidson, BioDrain Medical, Inc., 16771 Ironwood Circle, Lakeville, MN 55044 either by hand or by mail within the 15-day period. If sent by mail, the rescission must be:

1. Postmarked within the 15-day period;
2. Properly addressed to the Company; and
3. Sent by certified mail, return receipt requested.

I have read this Release carefully and understand all its terms. I have had an opportunity to discuss this Release with my own attorney. In agreeing to sign this Release, I have not relied on any statements or explanations made by the Company or its attorneys.

I understand and agree that this Release, the Separation Agreement to which it is attached, and the Nondisclosure and Noncompete Agreement signed October 18, 2006 contain all the agreements between the Company and me. We have no other written or oral agreements.

Dated: 09-15-08



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Lawrence W. Gadbow

Exhibit A

NONDISCLOSURE AND NONCOMPETE AGREEMENT

**Nondisclosure and Noncompetition.**

(a) At all times while this agreement is in force and after its expiration or termination, Lawrence W. Gadbaw ("Employee") agrees to refrain from disclosing BioDrain Medical, Inc.'s ("Company") customer lists, trade secrets, or other confidential material. Employee agrees to take reasonable security measures to prevent accidental disclosure and industrial espionage.

(b) While this agreement is in force, Employee agrees to use his best efforts to carry out the position of Executive Vice President of Corporate Development and to abide by the nondisclosure and noncompetition terms of this agreement. After expiration or termination of this agreement, Mr. Gadbaw agrees not to compete with Company for a period of two (2) years. This prohibition will not apply if this agreement is terminated because Company violated the term of this agreement.

Competition means owning or working for a business of the following type: medical device dedicated to fluid management in medical environments to include, but not be limited to, operating rooms, emergency rooms, day surgery center, patient rooms, ambulances.

IN WITNESS WHEREOF, BioDrain Medical, Inc. and Lawrence W. Gadbaw have signed this agreement.

BIODRAIN MEDICAL, INC.

By Guadalupe Ruiz  
Its CFO

Lawrence W. Gadbaw  
Lawrence W. Gadbaw

Date: 10-18-06

## OPTION AGREEMENT

**THIS OPTION AGREEMENT** (the "Option Agreement") is made and entered into effective as of June 5, 2008, by and between BioDrain Medical, Inc., a Minnesota corporation ("the Company") and Kevin R. Davidson ("Davidson"), an individual residing in the state of Minnesota.

W I T N E S S E T H

WHEREAS, the Company and Davidson are parties to an Employment Agreement dated October 4, 2006 (the "Agreement"); and

WHEREAS, under the Agreement, the Company may be required to issue shares of common stock of the Company to Davidson; and

WHEREAS, the parties desire to modify the Agreement to provide that the Company will issue options to acquire common stock of the Company in place of common stock of the Company.

NOW, THEREFORE, in consideration of the foregoing premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company hereby grants to Davidson an option to purchase common stock of the Company upon the terms and conditions set forth herein to which the Company and Davidson hereby agree:

1.) Grant of Option. The Company hereby grants to Davidson an Option (the "Option") effective as of the date hereof (the "Date of Grant") to purchase an aggregate of 543,292 shares of common stock of the Company (the "Options Shares") upon the terms and conditions set forth herein and subject to any adjustments pursuant to the provisions of Section 7. Such Option is a "non-qualified" stock option under the Internal Revenue Code.

2.) Option Price. Subject to any adjustments pursuant to the provisions of Section 7, the exercise price of the Option Shares ("the Option Price") is one cent (\$.01) per Option Share. The Option Price, if and when paid, shall be deemed to be a capital contribution to the Company by Davidson.

3.) Vesting; Term of Option. Except as otherwise provided in this Agreement, the Option shall be fully vested immediately and shall be exercisable by Davidson until June 5, 2018.

4.) Manner of Exercise. Subject to the terms and conditions of this Agreement, Davidson may exercise the Option by providing written notice to the Company which:

(a) States that the Option is being exercised and sets forth the number of Option Shares with respect to which the Option is being exercised (the Option may be exercised in increments of 10,000 shares or, if fewer, all remaining Shares); and

(b) Represents that it is being exercised by Davidson for his own account; and

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(c) Is signed by Davidson; and

(d) Is accompanied by payment of the exercise price.

Notice which is deficient in any particular manner shall not constitute an exercise of the Option.

5.) Status as Shareholder: Delivery of Certificate. Upon close of business on the date of exercise, Davidson shall be a shareholder of the Company without regard to whether a certificate representing the Option Shares shall have issued. Within fifteen (15) business days after exercise, the Company shall deliver a certificate evidencing the Option Shares to Davidson.

6.) Payment of Exercise Price. Upon exercise, and as a condition to exercise, Davidson shall pay the Option Price for the Option Shares being purchased by delivery of cash, check, bank draft, or money order made payable to the Company in an amount equal to the aggregate exercise price or in any other manner acceptable to the Company.

7.) Adjustments for Changes in Shares. The number of Option Shares issuable upon the exercise of all or a portion of the Option shall be subject to adjustment from time to time upon the happening of the following events:

(a) In case the Company shall subdivide its outstanding shares into a greater number of shares or declare a dividend or distribution payable in shares, the number of shares issuable hereunder shall be proportionately increased and the Option Price shall be proportionately decreased. Conversely, in case the outstanding shares shall be combined into a smaller number of shares, the number of shares issuable hereunder shall be proportionately decreased and the Option Price shall be proportionately increased. Upon occurrence of each such event, the Chief Financial Officer or President of the Company shall prepare a certificate of calculation of such adjustment and deliver a copy of such calculation to Davidson.

(b) If any capital reorganization or reclassification of the shares of the Company or consolidation or merger of the Company with another corporation or a limited liability company shall be effected in such a way that holders of shares shall become entitled to receive stock, securities, or other assets with respect to or in exchange for such shares, then the Optionee shall have the right to purchase and receive upon the terms and conditions specified in the Option, and in lieu of the shares immediately theretofore purchasable and receivable upon the exercise of this Option, such substituted property as would have been issued or delivered to the Optionee with respect to or in exchange for the Option Shares as would have been issued or delivered to the Optionee if he had exercised the Option and had received, upon exercise of the Option, the Option Shares immediately prior to such reorganization, reclassification, consolidation, merger, or sale.

8.) Postponement of Exercise. Notwithstanding anything herein to the contrary, the Company shall have the right to delay any exercise for a period of up to one hundred eighty (180) days for the purpose of ensuring the availability of an exemption under applicable securities law for the issuance of the Option Shares to the Optionee in light of other transactions by the

Company in its securities. If the Company elects to delay any such exercise, the Company shall inform the Optionee, in writing, of such delay and the term of such delay. Any such delay shall not lead to any change in the Option Price or the terms of the Option and shall not extend the term of any Option unless such delay would extend past the expiration date of such Option. In such case, the expiration date shall be extended to thirty (30) days after the end of such delay.

9.) Securities Laws. The Optionee has been advised that the Option, and the Option Shares to be purchased pursuant to the Option, are not being registered under the Securities Act of 1933, as amended (the "Act"), or any state securities laws pursuant to exemptions from the Act, and that the Company's ability and obligation to issue the Option Shares is dependent upon the availability of exemptions from registration pursuant to the Act and applicable state securities laws. The Company has no obligation to register this Option or the Option Shares under federal or state securities laws. In the event that the Company cannot find an exemption from registration under the Act and applicable state securities laws for issuance of the Option Shares, the Company may delay exercise and shall issue the Option Shares at the first opportunity an exemption is available.

10.) Representations. The Optionee acknowledges and agrees as follows:

(a) The Option and any Option Shares acquired pursuant to exercise of the Option are being acquired for the Optionee's own account and for investment and not with a view to, or for resale in connection with, any distribution or public offering of the Option Shares within the meaning of the Act or any applicable state securities laws.

(b) The Company has no obligation to register the Option or the Option Shares under either federal or state securities laws;

(c) The Option and the Option Shares may not be transferred or resold without registration under the Act and any applicable state securities acts or the existence of an exemption from those registration requirements;

(d) The records of the Company will be marked to prevent any proposed transfer of the Option or the Option Shares until there is compliance with the registration requirements of the Act and any applicable state securities laws, or until the Company is satisfied that an exemption from such registration requirements is applicable to any proposed transfer (the obligation to determine the availability of any sale exemption shall be that of the Optionee and is subject to the Company's counsel being satisfied as to the availability of such exemption);

(e) The Company has no obligation to perfect any exemption under the Act or applicable state securities laws for the resale of the Option Shares;

(f) The Optionee agrees that he will not exercise the Option unless, and by exercising the Option, the Optionee will represent that, by reason of the Optionee's knowledge and experience in financial and business matters in general, and investments in particular, the

Optionee is capable of evaluating the merits and risks of an investment in the Option Shares;

(g) The Option Shares shall bear a legend restricting the transferability thereof, such legend to be substantially in following form:

“The securities represented by this Certificate have not been registered under the Securities Act of 1933, as amended, or applicable state securities laws. Such securities may not be sold, pledged or otherwise transferred except pursuant to an effective registration statement or an opinion of counsel, satisfactory to the issuer, as to the availability of an exemption from registration under the foregoing laws. This legend represents a restriction on transferability of the securities represented by this Certificate.”

(h) The Optionee agrees that he will not exercise the Option unless, and by exercising the Option, the Optionee will represent that, the Optionee realizes that the acquisition of the Option Shares upon exercise of the Option would be a long-term investment, and the Optionee must bear the economic risk of such investment for an indefinite period of time;

(i) The Optionee agrees that he will not exercise the Option unless, and by exercising the Option, the Optionee will represent that, the Optionee believes he has the knowledge and experience in financial and business matters such that he is capable of evaluating the merits and risks of the potential investment in the Option Shares;

(j) The Optionee agrees that he will not exercise the Option unless, and by exercising the Option, the Optionee will represent that, the Optionee has obtained, to the extent the Optionee deems necessary, personal and professional advice with respect to the risks inherent in the investment in the Option Shares in light of the Optionee’s financial condition and investment needs;

(k) The Optionee agrees that he will not exercise the Option unless, and by exercising the Option, the Optionee will represent that, the Optionee has been and will have been given access to full and complete information regarding the Company and has utilized and will have utilized such access to his satisfaction for the purpose of obtaining information. Specifically, the Optionee will have attended or will have been given reasonable opportunity to attend a meeting with representatives of the Company for the purpose of asking questions of, and receiving answers from, such representatives concerning the Company and the Option Shares and to obtain any additional information, to the extent reasonably available; and

(l) Prior to exercise and as a condition of exercise, at the Company’s election, the Optionee shall reconfirm the accuracy and currency of the foregoing representations.

(m) Notwithstanding any of the other provisions of this Agreement, the Optionee shall not exercise the Option, and the Company will not be obligated to issue the Option Shares

to the Optionee hereunder, if the exercise of the Option or the issuance of the Option Shares will constitute a violation by the Optionee or the Company of any provisions of any law or regulation of any governmental authority.

11.) Nontransferability of Option. The Option granted under this Agreement is not transferable by the Optionee, either voluntarily or involuntarily, except by will or the laws of descent and distribution. Any attempt to do so will void the Option. The Option is exercisable only by the Optionee or the Optionee's legal representative, or, upon transfer by will or the laws of descent and distribution, by the transferee.

12.) No Obligation to Exercise; No Rights as a Shareholder. The granting of this Option shall impose no obligation upon the Optionee to exercise such Option. No rights as a shareholder of the Company will inure to the Optionee with respect to any of the Option Shares until this Option is duly exercised as to such shares and the Optionee has become a holder of record of such shares. No adjustments will be made for cash dividends or other distributions or other rights as to which there is a record date preceding the date the Optionee becomes the holder of record of such Option Shares.

13.) Additional Information. The Optionee agrees to supply such additional information and documentation relating to the Optionee as may be requested by the Company in order to ensure compliance by the Company with all applicable laws.

14.) Withholding Taxes. The Optionee acknowledges that under the law in effect as of the date of this Agreement, he will generally realize income for federal and state income tax purposes at the time of exercise of the Option, and further, that such income may constitute compensation subject to withholding of income taxes. At the time of any exercise of the Option, the Optionee will make arrangements with the Company to satisfy any withholding tax obligations resulting from the exercise of the Option.

15.) Notice. Any notice required to be given by this Agreement shall be in writing and shall, except as otherwise provided herein, be deemed delivered when delivered personally or sent by registered or certified mail, return receipt requested, to the respective party at the following address or such address as the receiving party may designate by prior written notice under this section:

As to the Company:

BioDrain Medical, Inc.  
699 Minnetonka Highlands Lane  
Orono, Minnesota 55356-9728

As to the Optionee:

Kevin R. Davidson

\_\_\_\_\_  
\_\_\_\_\_

16.) Binding Effect. This Agreement shall be binding upon and inure to the benefit of all the parties hereto and their successors and permitted assigns.

17.) Governing Law. This Agreement shall be governed by and construed in accordance with the substantive laws of the State of Minnesota, without giving effect to the choice of law provisions of such state.

18.) Multiple Counterparts. This Agreement may be executed in several counterparts, each of which shall, for all purposes, be deemed an original, and all of such counterparts, taken together, shall constitute one and the same agreement, even though all of the parties hereto may not have executed the same counterpart of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the day and year first above written.

COMPANY:  
BIODRAIN MEDICAL, INC.

Dated:

By: /s/ Kevin R. Davidson

\_\_\_\_\_  
Kevin R. Davidson  
Its: President

Attest: /s/ Gerald D. Rice

\_\_\_\_\_  
Gerald D. Rice  
Its:

OPTIONEE:  
/s/ Kevin R. Davidson

\_\_\_\_\_  
Kevin R. Davidson



THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

**BioDrain Medical, Inc.**

**DIRECTOR STOCK OPTION AGREEMENT  
(Non-Statutory)**

This Director Stock Option Agreement is made and entered as of the 22nd day of August, 2006 (the Agreement Date”) by and between BioDrain Medical, Inc., a Minnesota corporation (“Company”) and Board of Directors member Thomas J. McGoldrick (the “Optionee”) as consideration for Board membership.

**1. Stock Option Grant.**

(a) **Annual Grant.** In accordance with the Director Stock Option Agreement entered as of August 22, 2005 and for the preceding year ending August 21, 2006 of, Optionee’s Board membership, Optionee is hereby granted 10,000 Option Shares subject to the terms set forth below.

**2. Nonstatutory Option.** The Option is granted to purchase up to the number of shares of authorized but unissued common stock of the Company specified in Section 1 (the “Shares”). The Option will expire, and all rights to exercise it will terminate on the earliest of: (a) the date provided below in Sections 8 and 9, and (b) the Expiration Date. This Option is intended by the Company and the Optionee to be a Non-Statutory Stock Option and does not qualify for any special tax benefits to the Optionee.

**3. Exercise Price.** The Exercise Price for each Option Share of the Company will be \$1.00.

**4. Period of Exercise** The Options will expire at 5:00 p.m. on the fifth anniversary of this Grant Date.

**5. Vesting of Options.** Optionee will have the right to exercise the Stock Option in accordance with the following schedule:

The Shares subject to the Stock Option will vest in 90 days from the Annual Grant Date for each succeeding year.

**6. Transferability.** The Option is not transferable except by will or the laws of descent and distribution and may be exercised during the lifetime of the Optionee only by the Optionee, and if exercised following the Optionee’s death, by the Optionee’s legal representative upon presenting evidence of authority to act on behalf of the Optionee’s estate acceptable to the Company.

**7. Change in Control.** If the Company enters into a binding agreement during the time that Optionee is a Board member of the Company that results in a change in control (as defined in the following sentence), then 100% of the Shares will vest. For purposes of this Option Agreement, “change in control” means that:

(1) any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity or person, or any syndicate or group deemed to be a person under Section 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is or becomes the “beneficial owner” (as defined in Rule 13d-3 of the General Rules and Regulations under the Exchange Act), directly or indirectly, of securities of the Corporation representing fifty percent (50%) or more of the combined voting power of the Company’s then outstanding securities entitled to vote in the election of directors of the Company; or

(2) there occurs a reorganization, merger, consolidation or other corporate transaction involving the Company (“Transaction”), in each case, with respect to which the stockholders of the

Company immediately prior to such Transaction do not, immediately after the Transaction, own more than fifty percent (50%) of the combined voting power of the Company or other corporation resulting from such Transaction; or

(3) all or substantially all of the assets of the Company are sold, liquidated or distributed.

**8. Termination of Services by the Company.** If at any time prior to August 22, 2008, Optionee's membership on the Board of Directors of the Company is terminated by the Company without "Cause", then Optionee may exercise the Option as to one hundred percent (100%) of the remaining 40,000 Shares of the Initial Grant which are not otherwise vested on the date of the termination.

**9. Option Lapse.** The Option will lapse and becomes unexercisable in full on the earliest of the following events:

(a) the first anniversary of the Optionee's death, as provided below in Section 10;

(b) the date otherwise provided below in Section 10, unless the Board of Directors otherwise extends such period before the applicable expiration date.

**10. Board Resignation.** If Optionee ceases to be a Board member for any reason other than that described in this Section 10, Optionee will have the right, subject to the other provisions of this Agreement, to exercise the Option for the term of the Option but only to the extent that on the date of termination the Optionee's right to exercise such Option had vested, and at the end of such period the Option will expire, and all rights to exercise it will terminate.

(a) If Optionee dies while a Board member, or after ceasing to be a Board member but during the period while he could have exercised an Option under the preceding sub-Sections, the Option granted to the Optionee may be exercised, to the extent it has vested at the time of death and subject to the Plan, at any time within twelve (12) months after the Optionee's death, by the executors or administrators of his estate or by any person or persons who acquire the Option by will or the laws of descent and distribution, but not beyond the otherwise applicable term of the Option.

**11. Adjustment in Capitalization.** If there is any change in the outstanding common stock of the Company by reason of a stock dividend or split, recapitalization, reclassification, or other similar capital change, the aggregate number of Option Shares subject to the Option will be appropriately adjusted by the Company, as directed by the Board of Directors of the Company whose determination is final and conclusive, except that fractional Shares will be rounded to the nearest whole Share. In any such case, the number and kind of Shares that are subject to the Option and the Option exercise price per Share will be proportionately adjusted without any change in the aggregate Option price to be paid upon exercise of the Option.

**12. Amendment, Modification and Termination of Agreement.** The Board of Directors of the Company may at any time terminate, and from time to time may amend or modify Agreement; provided, however, that no amendment, modification, or termination of this Agreement may in any manner adversely affect the Option without the consent of the Optionee.

**13. Lock up Period.** The Optionee understands that the Company at a future date may file a registration or offering statement (the "Registration Statement") with the Securities and Exchange Commission to facilitate an initial public offering of its securities. The Optionee agrees, for the benefit of the Company, that should such an initial public offering be made and should the managing underwriter of such offering require, the Optionee will not, without the prior written consent of the Company and such underwriter, during the Lock Up Period as defined herein: (i) sell, transfer or otherwise dispose of, or agree to sell, transfer or otherwise dispose of any Shares beneficially held by the Optionee during the Lock Up Period; (ii) sell, transfer or otherwise dispose of, or agree to sell, transfer or otherwise dispose of any options, rights

or warrants to purchase any Shares beneficially held by the Optionee during the Lock Up Period; or (iii) sell or grant, or agree to sell or grant, options, rights or warrants with respect to any Shares. The foregoing does not prohibit gifts to donees or transfers by will or the laws of descent to heirs or beneficiaries provided that such donees, heirs and beneficiaries are bound by the restrictions set forth herein. The term "Lock Up Period" means the lesser of (a) 180 days or (b) the period during which Company officers and directors are restricted by the managing underwriter from effecting any sales or transfers of the Company's common stock. The Lock Up Period will commence on the effective of the Registration Statement.

#### 14. Securities Matters.

(1) **Registration.** If the Company deems it necessary or desirable to register or qualify the Option or any Shares with respect to which the Option has been granted or exercised under the Securities Act of 1933, as amended, or any other applicable statute or regulation, the Optionee will cooperate with the Company and take such action as is necessary to permit registration or qualification of the Option or the Shares. The foregoing notwithstanding, the Company has no obligation to register the Option or any Shares.

(2) **Investment Intent.** Unless the Company has determined that the following representation is unnecessary, each person exercising any portion of the Option will be required, as a condition to the issuance of Shares pursuant to exercise of the Option, to make a representation in writing (a) that he or she is acquiring the Shares for his or her own account for investment and not with a view to, or for sale in connection with, the distribution of any part thereof, (b) that before any transfer in connection with the resale of the Shares, he or she will obtain the written opinion of counsel for the Company, or other counsel acceptable to the Company, that the Shares may be transferred. The Company may also place a stop transfer order with its transfer agent with respect to the Shares and require that certificates representing the Shares contain legends reflecting the foregoing.

#### 15. Miscellaneous.

(1) **Requirements of Law.** The granting of the Option and the issuance of Shares are subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(2) **Choice of Law and Venue.** This Agreement is made under and must be governed by the laws of the State of Minnesota, and each of the parties hereto consents to venue any suit or action under or with regard to this Agreement in an appropriate court with jurisdiction in Hennepin County, Minnesota.

(3) **Notices.** All notices, requests and other communications from either party to the other hereunder must be given in writing and will be deemed to have been duly given if personally delivered, or sent by first class, certified mail, return receipt requested, postage prepaid, to the party may at the address as provided below, or to such other address as such party may hereafter designate by written notice to the other party:

(a) If the Company, to the address of its then principal office; and

(b) If to the Optionee, to the residence address last shown in the records of the Company, which as of the date of this Agreement is as follows:

Thomas J. McGoldrick  
19575 W. Chimo  
Deephaven, MN 55391

(4) **No obligation to Exercise.** The granting of the Option imposes no obligation upon the holder thereof to exercise the Option.

(5) **Amendments; Final Agreement.** This Agreement contains the complete and final understanding of the parties with respect to the subject matter hereof and supersedes all prior understanding

and statements, written and oral. This Agreement may not be amended except in a written instrument signed by the party against whom enforcement is sought.

(6) **Headings.** Headings and captions used in this Agreement are for convenience and do not affect the meaning hereof.

16. **Share Issuance.** The Company will not be under any obligation to issue any Shares upon the exercise of this Stock Option unless and until the Company has determined that:

(a) it and Optionee have taken all actions required to register such Shares under the Securities Act, or to perfect an exemption from the registration requirements thereof;

(b) any applicable listing requirement of any stock exchange on which such Shares are listed has been satisfied; and

(c) all other applicable provisions of state and federal law have been satisfied.

17. **Tax Effect.** Optionee acknowledges that the tax effect of the exercise of this Stock Option and the sale of the underlying Shares is complicated, that Optionee has consulted with his own professional advisor which respect to all tax matters relating to this Stock Option and the exercise and sale of the Shares and has not relied on any assurances or representations of the Company as to such matters.

18. The Shares have not been registered and, therefore, they may not be sold, pledged, hypothecated, or otherwise transferred unless they are registered under the Securities Act of 1933, as amended, and applicable state securities laws or an exemption from such registration is available.

19. **Stock Legend.** A legend will be placed on any certificate evidencing the Shares in substantially the following form:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE STATE SECURITIES LAWS OF ANY STATE. WITHOUT SUCH REGISTRATION, SUCH SECURITIES MAY NOT BE SOLD, PLEDGED, HYPOTHECATED, OR OTHERWISE TRANSFERRED AT ANY TIME WHATSOEVER, EXCEPT UPON DELIVERY TO THE COMPANY OF AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED FOR SUCH TRANSFER AND/OR THE SUBMISSION TO THE COMPANY OF SUCH OTHER EVIDENCE AS MAY BE SATISFACTORY TO THE COMPANY TO THE EFFECT THAT ANY SUCH TRANSFER WILL NOT BE IN VIOLATION OF THE SECURITIES ACT OF 1933, AS AMENDED, AND/OR APPLICABLE STATE SECURITIES LAWS AND/OR ANY RULE OR REGULATION PROMULGATED THEREUNDER.

IN WITNESS WHEREOF, each of the parties hereto has executed this Stock Option Agreement, in the case of the Corporation by its duly authorized officer, as of the date and year written above.

**OPTIONEE**

**BIODRAIN MEDICAL, INC.,**  
a Minnesota corporation

By:

Its:



Thomas J. McGoldrick

Kevin R. Davidson  
President & CEO

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

**BioDrain Medical, Inc.**

**DIRECTOR STOCK OPTION AGREEMENT  
(Non-Statutory)**

This Director Stock Option Agreement is made and entered as of the 11th day of November, 2006 (the Agreement Date”) by and between BioDrain Medical, Inc., a Minnesota corporation (“Company”) and Board of Directors member Andrew P. Reding (the “Optionee”) as consideration for Board membership..

**1. Stock Option Grant.**

(a) **Initial Grant.** The Company hereby grants to the Optionee an option (the “Option”) to purchase 30,000 shares (“Option Shares”, with each being an “Option Share”) of its \$0.01 par value common stock (“Share”), under the terms and conditions set forth below.

(b) **Annual Grant.** For each succeeding year of the Optionee’s Board membership, and on the anniversary of this Agreement (“Annual Grant Date”), Optionee will be granted an additional 10,000 Option Shares subject to the same terms as set forth below with the exception of the Exercise Price, the Expiration Date and Vesting schedule identified in 3, 4 and 5.

**2. Nonstatutory Option.** The Option is granted to purchase up to the number of shares of authorized but unissued common stock of the Company specified in Section 1 (the “Shares”). The Option will expire, and all rights to exercise it will terminate on the earliest of: (a) the date provided below in Sections 8 and 9, and (b) the Expiration Date. This Option is intended by the Company and the Optionee to be a Non-Statutory Stock Option and does not qualify for any special tax benefits to the Optionee.

**3. Exercise Price.**

(a) **Initial Grant.** The exercise price of each Option Share of the Company for the Initial Grant as of any exercise date is \$1.00 per Share.

(b) **Annual Grant.** The Exercise Price for each Option Share of the Company for each Annual Grant will be determined by the prevailing price of the Company’s common stock at the time of the Annual Grant.

**4. Period of Exercise.**

(a) **Initial Grant.** The Option for the Initial Grant will expire at 5:00 p.m. on the fifth anniversary of the Agreement Date (“the Expiration Date”).

(b) **Annual Grant.** Annual Grant Options will expire at 5:00 p.m. on the fifth anniversary of their respective Grant Dates.

**5. Vesting of Options.** Optionee will have the right to exercise the Stock Option in accordance with the following schedule:

(a) **Initial Grant.** 30,000 Shares

(i) The Shares subject to the Stock Option will vest in three equal increments of 10,000 Shares on the anniversary of the date of the Grant.

(ii) The right to exercise the Option will be cumulative. Optionee may buy all, or from time to time any part, of the maximum number of shares which are exercisable under the Option, but in no case may Optionee exercise the Option with regard to a fraction of a share, or for any share for which the Option is not exercisable.

(b) **Annual Grant 10,000 Shares.** The Shares subject to the Stock Option will vest in 90 days from the Annual Grant Date for each succeeding year.

6. **Transferability.** The Option is not transferable except by will or the laws of descent and distribution and may be exercised during the lifetime of the Optionee only by the Optionee, and if exercised following the Optionee's death, by the Optionee's legal representative upon presenting evidence of authority to act on behalf of the Optionee's estate acceptable to the Company.

7. **Change in Control.** If the Company enters into a binding agreement during the time that Optionee is a Board member of the Company that results in a change in control (as defined in the following sentence), then 100% of the Shares will vest. For purposes of this Option Agreement, "change in control" means that:

(1) any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity or person, or any syndicate or group deemed to be a person under Section 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is or becomes the "beneficial owner" (as defined in Rule 13d-3 of the General Rules and Regulations under the Exchange Act), directly or indirectly, of securities of the Corporation representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities entitled to vote in the election of directors of the Company; or

(2) there occurs a reorganization, merger, consolidation or other corporate transaction involving the Company ("Transaction"), in each case, with respect to which the stockholders of the Company immediately prior to such Transaction do not, immediately after the Transaction, own more than fifty percent (50%) of the combined voting power of the Company or other corporation resulting from such Transaction; or

(3) all or substantially all of the assets of the Company are sold, liquidated or distributed.

8. **Termination of Services by the Company.** If at any time prior to August 22, 2008, Optionee's membership on the Board of Directors of the Company is terminated by the Company without "Cause", then Optionee may exercise the Option as to one hundred percent (100%) of the remaining 30,000 Shares of the Initial Grant which are not otherwise vested on the date of the termination.

9. **Option Lapse.** The Option will lapse and becomes unexercisable in full on the earliest of the following events:

(a) the first anniversary of the Optionee's death, as provided below in Section 10;

(b) the date otherwise provided below in Section 10, unless the Board of Directors otherwise extends such period before the applicable expiration date.

10. **Board Resignation.** If Optionee ceases to be a Board member for any reason other than that described in this Section 10, Optionee will have the right, subject to the other provisions of this Agreement, to exercise the Option for the term of the Option but only to the extent that on the date of termination the Optionee's right to exercise such Option had vested, and at the end of such period the Option will expire, and all rights to exercise it will terminate.

(a) If Optionee dies while a Board member, or after ceasing to be a Board member but during the period while he could have exercised an Option under the preceding sub-Sections, the Option granted to the Optionee may be exercised, to the extent it has vested at the time of death and subject to the Plan, at any time within twelve (12) months after the Optionee's death, by the executors or administrators of his estate or by any person or persons who acquire the Option by will or the laws of descent and distribution, but not beyond the otherwise applicable term of the Option.

**11. Adjustment in Capitalization.** If there is any change in the outstanding common stock of the Company by reason of a stock dividend or split, recapitalization, reclassification, or other similar capital change, the aggregate number of Option Shares subject to the Option will be appropriately adjusted by the Company, as directed by the Board of Directors of the Company whose determination is final and conclusive, except that fractional Shares will be rounded to the nearest-whole Share. In any such case, the number and kind of Shares that are subject to the Option and the Option exercise price per Share will be proportionately adjusted without any change in the aggregate Option price to be paid upon exercise of the Option.

**12. Amendment, Modification and Termination of Agreement.** The Board of Directors of the Company may at any time terminate, and from time to time may amend or modify Agreement; provided, however, that no amendment, modification, or termination of this Agreement may in any manner adversely affect the Option without the consent of the Optionee.

**13. Lock up Period.** The Optionee understands that the Company at a future date may file a registration or offering statement (the "Registration Statement") with the Securities and Exchange Commission to facilitate an initial public offering of its securities. The Optionee agrees, for the benefit of the Company, that should such an initial public offering be made and should the managing underwriter of such offering require, the Optionee will not, without the prior written consent of the Company and such underwriter, during the Lock Up Period as defined herein: (i) sell, transfer or otherwise dispose of, or agree to sell, transfer or otherwise dispose of any Shares beneficially held by the Optionee during the Lock Up Period; (ii) sell, transfer or otherwise dispose of, or agree to sell, transfer or otherwise dispose of any options, rights or warrants to purchase any Shares beneficially held by the Optionee during the Lock Up Period; or (iii) sell or grant, or agree to sell or grant, options, rights or warrants with respect to any Shares. The foregoing does not prohibit gifts to donees or transfers by will or the laws of descent to heirs or beneficiaries provided that such donees, heirs and beneficiaries are bound by the restrictions set forth herein. The term "Lock Up Period" means the lesser of (a) 180 days or (b) the period during which Company officers and directors are restricted by the managing underwriter from effecting any sales or transfers of the Company's common stock. The Lock Up Period will commence on the effective of the Registration Statement.

#### **14. Securities Matters.**

(1) **Registration.** If the Company deems it necessary or desirable to register or qualify the Option or any Shares with respect to which the Option has been granted or exercised under the Securities Act of 1933, as amended, or any other applicable statute or regulation, the Optionee will cooperate with the Company and take such action as is necessary to permit registration or qualification of the Option or the Shares. The foregoing notwithstanding, the Company has no obligation to register the Option or any Shares.

(2) **Investment Intent.** Unless the Company has determined that the following representation is unnecessary, each person exercising any portion of the Option will be required, as a condition to the issuance of Shares pursuant to exercise of the Option, to make a representation in writing (a) that he or she is acquiring the Shares for his or her own account for investment and not with a view to, or for sale in connection with, the distribution of any part thereof, (b) that before any transfer in connection with the resale of the Shares, he or she will obtain the written opinion of counsel for the Company, or other counsel acceptable to the Company, that the Shares may be transferred. The Company may also place a stop

transfer order with its transfer agent with respect to the Shares and require that certificates representing the Shares contain legends reflecting the foregoing.

#### 15. Miscellaneous.

(1) **Requirements of Law.** The granting of the Option and the issuance of Shares are subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(2) **Choice of Law and Venue.** This Agreement is made under and must be governed by the laws of the State of Minnesota, and each of the parties hereto consents to venue any suit or action under or with regard to this Agreement in an appropriate court with jurisdiction in Hennepin County, Minnesota.

(3) **Notices.** All notices, requests and other communications from either party to the other hereunder must be given in writing and will be deemed to have been duly given if personally delivered, or sent by first class, certified mail, return receipt requested, postage prepaid, to the party may at the address as provided below, or to such other address as such party may hereafter designate by written notice to the other party:

(a) If the Company, to the address of its then principal office; and

(b) If to the Optionee, to the residence address last shown in the records of the Company, which as of the date of this Agreement is as follows:

Andrew P. Reding  
2036 Blessing Court  
Mt. Pleasant, SC 29464

(4) **No obligation to Exercise.** The granting of the Option imposes no obligation upon the holder thereof to exercise the Option.

(5) **Amendments; Final Agreement.** This Agreement contains the complete and final understanding of the parties with respect to the subject matter hereof and supersedes all prior understanding and statements, written and oral. This Agreement may not be amended except in a written instrument signed by the party against whom enforcement is sought.

(6) **Headings.** Headings and captions used in this Agreement are for convenience and do not affect the meaning hereof.

16. **Share Issuance.** The Company will not be under any obligation to issue any Shares upon the exercise of this Stock Option unless and until the Company has determined that:

(a) it and Optionee have taken all actions required to register such Shares under the Securities Act, or to perfect an exemption from the registration requirements thereof;

(b) any applicable listing requirement of any stock exchange on which such Shares are listed has been satisfied; and

(c) all other applicable provisions of state and federal law have been satisfied.

17. **Tax Effect.** Optionee acknowledges that the tax effect of the exercise of this Stock Option and the sale of the underlying Shares is complicated, that Optionee has consulted with his own professional advisor which respect to all tax matters relating to this Stock Option and the exercise and sale of the Shares and has not relied on any assurances or representations of the Company as to such matters.



18. The Shares have not been registered and, therefore, they may not be sold, pledged, hypothecated, or otherwise transferred unless they are registered under the Securities Act of 1933, as amended, and applicable state securities laws or an exemption from such registration is available.

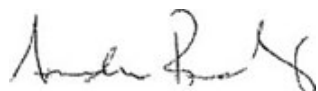
19. **Stock Legend.** A legend will be placed on any certificate evidencing the Shares in substantially the following form:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE STATE SECURITIES LAWS OF ANY STATE. WITHOUT SUCH REGISTRATION, SUCH SECURITIES MAY NOT BE SOLD, PLEDGED, HYPOTHECATED, OR OTHERWISE TRANSFERRED AT ANY TIME WHATSOEVER, EXCEPT UPON DELIVERY TO THE COMPANY OF AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED FOR SUCH TRANSFER AND/OR THE SUBMISSION TO THE COMPANY OF SUCH OTHER EVIDENCE AS MAY BE SATISFACTORY TO THE COMPANY TO THE EFFECT THAT ANY SUCH TRANSFER WILL NOT BE IN VIOLATION OF THE SECURITIES ACT OF 1933, AS AMENDED, AND/OR APPLICABLE STATE SECURITIES LAWS AND/OR ANY RULE OR REGULATION PROMULGATED THEREUNDER.

IN WITNESS WHEREOF, each of the parties hereto has executed this Stock Option Agreement, in the case of the Corporation by its duly authorized officer, as of the date and year written above.

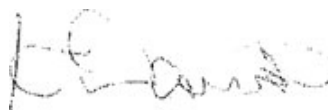
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**OPTIONEE**



Andrew P. Reding

**BIODRAIN MEDICAL, INC.,**  
a Minnesota corporation



By:

Kevin R. Davidson  
President & CEO

Its:

5

CONSULTANT AGREEMENT

This Consultant Agreement (“Agreement”) is made and effective Feb. 29, 2008 (“Effective Date”), by and between Jeremy Roll (“Consultant”) and BioDrain Medical, Inc., a Minnesota corporation (the “Company”).

Now, therefore, Consultant and the Company agree as follows:

1. Services. The Company shall, and hereby does, grant Consultant the non-exclusive right to present, introduce and/or refer to the Company a limited number of qualified and “accredited” investors residing in the state of California and other jurisdictions expressly approved in writing by the Company (“Investors”) who may purchase shares of the Company’s common stock and warrants (“Common Stock”) that are being offered in a private offering (“Private Offering”) pursuant to Regulation D under Rule 506 of the Rules and Regulations promulgated by the Securities and Exchange Commission (“SEC”). The Company shall effect the sale and shall retain sole discretion in determining whether or not to enter into any transaction with any Investor and may accept or reject any subscription made by any Investor identified by Consultant hereunder. This Agreement shall be non-exclusive as to both the Company and Consultant.

2. Term. Consultant Shall provide services to the Company pursuant to this Agreement for a term commencing on the date of this Agreement and ending upon termination of the Company’s Private Offering or one year from the date hereof, whichever is earlier, or unless sooner terminated in accordance with the provisions of Section 5.

3. Compensation.

3.1 The Company shall pay Consultant a referral fee in cash equal to ten percent (10%) of the gross proceeds received by the Company-from Investors introduced to the Company through Consultant’s direct efforts. Cash referral fees shall be paid upon receipt of invoice, provided that gross proceeds have cleared into good funds deposited in the designated bank account of the Company. Consultant may elect to receive all or part of the cash referral fee in the form of the Company’s restricted Common Stock based upon the Fair Market Value of the Common Stock on the date such referral fees shall become due and payable.

3.2. The Company shall also issue Consultant a warrant to purchase restricted Common Stock of the Company, at an exercise price of \$0.35 per share, equal to ten percent (10%) of the gross proceeds received by the Company from Investors introduced to the Company through Consultant’s direct efforts, based upon the Fair Market Value of the Common Stock on the date any referral fees shall become due and payable.

3.3. The compensation described in paragraphs 3.1 and 3.2 (above) shall reflect only compensation for the sale of shares pursuant Company’s Private Offering and shall not apply to any other type of financing transaction contemplated by the Company, Consultant shall bear all of Consultant’s own expenses incurred in the performance of this Agreement. The Company shall incur the expense of mailing investment information to Investors.

3.4 “FAIR MARKET VALUE” means, as of any date, the value of a share of the Company’s Common Stock determined as follows:

(a) such Common Stock is publicly traded and is then listed on a national securities exchange, its closing price on the date of determination on the principal national securities exchange on which the Common Stock is listed or admitted to trading;

(b) If such Common Stock is quoted on the NASDAQ National Market or the NASDAQ Capital Market, its closing price on the NASDAQ National Market or the NASDAQ Capital Market, respectively, on the date of determination;

(c) if such Common Stock is not listed on a national securities exchange or quoted on the NASDAQ National Market or the NASDAQ Capital Market, but is traded in the over-the-counter market, the average of the bid and ask prices for a share of Common Stock on the most recent date on which the Common Stock was publicly traded;

(d) if none of the foregoing is applicable, by the Company's Board of Directors in good faith.

4. Confidential Information. Consultant shall not, without the prior written consent of the Company, disclose to anyone any Confidential Information. "Confidential Information" for the purposes of this Agreement shall include the Company's proprietary and confidential information such as, but not limited to, customer lists, business plans, marketing plans, financial information, designs, drawing, specifications, models, software, source codes and object codes. Confidential Information shall not include any information that: (A) Is disclosed by the Company without restriction, (B) Becomes publicly available through no act of Consultant, or (C) Is rightfully received by Consultant from a third party.

5. Termination. This Agreement may be terminated by either party at any time for any reason, by providing the other party with written notification of such termination. Termination shall become effective upon the later of the date of actual receipt of such notice or five (5) calendar days after deposit of such notice in the U.S. mail, first class postage prepaid, addressed to the other party, The date of deposit in the U.S. mail shall be determined by the postmark or cancellation date. The referral fee payment obligations of the Company shall survive for a period of one (1) year following termination of this Agreement with regard to any Investors referred by Consultant, notwithstanding the termination of this Agreement by either party for any reason.

6. Independent Contractor. Consultant is and throughout this Agreement shall be an independent contractor and not an employee, partner or agent of the Company. Consultant shall not be entitled to not receive any benefit normally provided to the Company's employees such as, but not limited to, vacation payment, retirement, health care or sick pay. The Company shall not be responsible for withholding income or other taxes from the payments made to Consultant. Consultant shall be solely responsible for filing all returns and paying any income, social security or other tax levied upon or determined with respect to the payments made to Consultant pursuant to this Agreement.

7. Consultant's Representations. The Consultant represents warrants and covenants to the Company that each of the following are true and complete as of the Effective Date:

7.1 Accredited Investor. Consultant is an "accredited investor" as that term is defined in Securities and Exchange Commission Rule 501 of Regulation D of the Securities Act of 1933, as amended (the "Act").

7.2 Investment Experience. Consultant hereby acknowledges and represents that (i) Consultant has prior investment experience, including in non-listed and unregistered securities, or that Consultant has employed the services of an investment advisor, attorney and/or accountant to read all of the documents furnished or made available by the Company to Consultant to evaluate the merits and risks of such an investment on Consultant's behalf; (ii) Consultant recognizes the highly speculative nature of an investment in the Common Stock; and (iii) Consultant is able to bear the economic risk and illiquidity which Consultant assumes by investing in the Common Stock.

7.3 Qualified Investor. Consultant has a preexisting personal or business relationship with the Company, or by reason of Consultant's business or financial experience or the business or financial experience of Consultant's professional advisors who are unaffiliated with and who are not compensated by the Company, directly or indirectly could be reasonably assumed to have the capacity to evaluate the merits and risks of an investment in the Company and to protect Consultant's own interests in connection with such an investment.

7.4 Access to Data. Consultant hereby represents that Consultant (i) has been furnished by the Company during the course of this transaction with all the information regarding the Company which Consultant has requested or desired to know; (ii) has been afforded the opportunity to ask questions of and receive answers from duly authorized officers or other representatives of the Company concerning the terms and conditions of the Common Stock; (iii) has been furnished by the Company with any of the Company SEC Reports which Consultant has requested, and (iv) has received any additional information which Consultant has requested.

7.5 Investment Intent. Consultant is acquiring the Common Stock for investment for its own account, not as a nominee or agent, and not with the view to, or for resale in connection with, any distribution thereof. Consultant understands that the Common Stock to be purchased has not been registered under the Securities Act of 1933, as amended (the "Securities Act") by reason of a specific exemption from the registration provisions of the Securities Act, the availability of which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of the Consultant's representations as expressed herein.

7.6 Rule 144. Consultant acknowledges that the Common Stock must be held for a period of at least two years unless subsequently registered under the Securities Act or unless an exemption from such registration is available. Consultant is aware of the provisions of Rule 144 promulgated under the Securities Act which permit limited resale of shares after a period of one year subject to the satisfaction of certain conditions, including, among other things, the existence of a public market for the shares, the availability of certain current public information about the Company, the sale being effected through a "broker's transaction" or in transactions directly with a "market maker" and the number of shares being sold during any three month period not exceeding specified limitations. The Company agrees to include the Consultant's Common Stock in any registration statement filed by the Company (other than registration statements in connection with service providers under Form S-8 and acquisitions under Form S-4).

7.7 Authorization. This Agreement, when executed and delivered by Consultant, will constitute a valid and legally binding obligation of Consultant, enforceable in accordance with its terms, subject to laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies.

7.8 No Consent. No consent, approval or authorization of or designation, declaration or filing with any governmental authority on the part of Consultant is required in connection with the valid execution and delivery of this Agreement.

7.9 Tax Liability. Consultant has reviewed with his own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by this Agreement. With respect to such tax consequences, Consultant relies solely on such advisors and not on any statements or representations of the Company or any of its agents. Consultant understands and agrees that he (and not the Company) shall be responsible for any tax consequence to Consultant that may arise as a result of this investment or the transactions contemplated by this Agreement.

7.10 High Risk. Consultant realizes that an investment in the Common Stock involves a high degree of risk. Consultant is able to bear the risk of the investment, to hold the Common Stock for an indefinite period of time and to suffer a complete loss of Consultant's investment.

7.11 Legends. Each certificate or instrument representing the Common Stock will be endorsed with the following or similar legends:

(i) “These securities have not been registered under the Securities Act of 1933, as amended (the “Securities Act”), or any state securities laws and may not be sold or otherwise transferred or disposed of except pursuant to an effective registration statement under the Securities Act and any applicable state securities laws, or an opinion of counsel satisfactory to counsel to the issuer that an exemption from registration under the Securities Act and any applicable state securities laws is available.”

(ii) Any other legends required by applicable state blue sky laws. The Company need not register a transfer of any Common Stock, and may also instruct its transfer agent not to register the transfer of such Common Stock, unless the conditions specified in this Agreement are satisfied.

7.12. Consultant is not a broker-dealer. Limitation on Consultant activities. Consultant has fully disclosed to the Company that it is not a broker-dealer and does not have or hold a license to act as such. None of the activities of Consultant are intended to provide the services of a broker-dealer to the Company.

8. Expenses. Unless otherwise agreed to by the Company in advance, Consultant shall be solely responsible for procuring, paying for and maintaining any computer equipment, software, paper, tools or supplies necessary or appropriate for the performance of Consultant’s services hereunder.

9. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota.

10. Headings. The headings in this Agreement are inserted for convenience only and shall not be used to define, limit or describe the scope of this Agreement or any of the obligations herein.

11. Entire Agreement. This Agreement constitutes the final understanding and agreement between the parties with respect to the subject matter hereof and supersedes all prior negotiations, understandings and agreements between the parties, whether written or oral. This Agreement may be amended, supplemented or changed only by an agreement in writing signed by both of the parties.

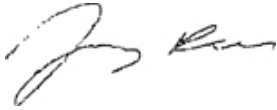
12. Notices. Any notice required to be given or otherwise given pursuant to this Agreement shall be in writing and shall be hand delivered, mailed by certified mail, return receipt requested or sent by recognized overnight courier service, at the address shown below, or at such other address or addresses as either party shall designate to the other in accordance with this Section 12.

13. Severability. If any term of this Agreement is held by a court of competent jurisdiction to be invalid or unenforceable, then this Agreement, including all of the remaining terms, shall remain in full force and effect as if such invalid or unenforceable term had never been included.

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

[SIGNATURE PAGE FOLLOWS]

**CONSULTANT**

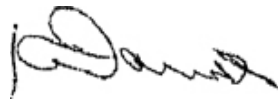


\_\_\_\_\_  
Jeremy Roll

11870 Santa Monica Boulevard  
Suite 160-500  
Los Angeles, CA 90025  
###-##-####

\_\_\_\_\_  
Tax ID Number

**BIODRAIN MEDICAL, INC.**



\_\_\_\_\_  
By: Kevin Davidson  
Title: Chief Executive Officer

BioDrain Medical, Inc.  
699 Minnetonka Highlands Lane  
Orono, Minnesota 55356-9728

## CONSULTING AGREEMENT

This Consulting Agreement ("**Agreement**") is made as of June 30, 2008 by and between BioDrain Medical, Inc., a Minnesota corporation (the "**Company**") and Namaste Financial, Inc., a California corporation (the "**Consultant**").

## RECITALS

**A.** The Company is an early stage company developing a patented medical device designed to provide medical facilities with an effective, efficient and affordable means to safely dispose of contaminated fluids.

**B.** The Consultant has significant expertise in the health sciences industry.

**C.** The Company desires to engage the Consultant, as an independent contractor, to perform the services described in this Agreement and the Consultant desires to perform such services for the Company, in accordance with the terms and conditions set forth in this Agreement. This Agreement is not an employment agreement and neither the Company nor Consultant intends to create any such employment relationship.

**NOW, THEREFORE**, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Consultant agree as follows:

## AGREEMENT

**1. Term.** The Company retains the Consultant and the Consultant accepts this appointment with the Company for a period of twelve months, beginning on April 15, 2008 and ending on April 14, 2009 (the "**Term**") unless terminated earlier in accordance with the provisions of Section 5.

**2. Duties of Consultant.** The Consultant agrees to render consulting services to the Company for the Term of this Agreement. The Consultant's duties and obligations shall be to advise the Company with regard to various aspects of its operations and business and to provide general business, strategic and growth advisory services. The Consultant will determine the required hours, method, details and means of performing the services. The Consultant shall be obligated to perform services up to an aggregate of forty (40) hours per month at the Consultant's discretion.

**3. Compensation.** The Company shall pay to the Consultant, as compensation for the services performed pursuant to this Agreement, the following:

- (a) Consultant shall receive 125,000 shares ("**Consultant Shares**"). The Company represents that upon the issuance of the Consultant Shares, all shares of the Consultant Shares shall be duly and validly issued, fully paid and non-assessable.

- (b) Warrants. Consultant shall be issued warrants to purchase 125,000 shares of Company common stock at an exercise price of \$0.46 per share (the “**Warrants**”). The Warrants will be fully vested immediately upon the date of issuance and will expire five years after the date of issuance. The Warrants will have a cashless exercise provision. The Company represents that upon the issuance of the shares of common stock underlying the Warrants, such shares shall be duly and validly issued, fully paid and non-assessable.
- (c) Reimbursement. The Company shall reimburse the Consultant for reasonable costs and expenses incurred by the Consultant in providing the consulting services, in accordance with the Company’s expense reimbursement guidelines. All expenses must be approved in advance by the Company’s Chief Financial Officer; provided, however, that the Company may elect at its sole discretion not to reimburse Consultant for any particular expense. The Company retains the right to determine the reasonableness of any submitted expense and to deny unreasonable expenses in its sole discretion. The Company will not reimburse Consultant for basic office expenses including, but not limited to, meals, office space, equipment telephone, postage, copying, stationary, business cards.

**4. Nondisclosure.** The Consultant acknowledges and agrees that:

(a) Any and all information disclosed by the Company and/or any of its affiliates to the Consultant and/or any of his agents, representatives or affiliates in connection with this Agreement, regardless of the method or purpose of disclosure, is considered confidential information, unless such information falls within the exceptions as stated in this section (collectively, “**Confidential Information**”).

(b) The Consultant hereby acknowledges and agrees that all such Confidential Information is the sole and exclusive property of the Company. Confidential Information shall be held and retained in trust and in a manner adequate to protect the Company’s proprietary rights and interests and such information shall not be disclosed to others or used for purposes other than performing under this Agreement without the Company’s prior written consent. Notwithstanding the foregoing, the Consultant may disclose Confidential Information where the Consultant believes in good faith that such disclosure must be made in order to not commit a violation of law (which may be statutory, regulatory, judicial or otherwise). In the event that the Consultant or any of his representatives are required, in the opinion of counsel (by oral questions, interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process), or requested by any governmental authority, to disclose any information supplied to him or to any of his representatives in the course of his dealings with the Company or its representatives, the Consultant agrees to provide the Company with prompt written notice of such request(s) so that it may, with the assistance and cooperation of the Consultant, seek an appropriate protective order and/or waive the Consultant’s compliance with the provisions of this Agreement.



(c) Confidential Information may be disclosed to agents of the Consultant, but only when such disclosure is required and necessary for successful performance under this Agreement and only to those agents who have become signatories to this Agreement.

(d) Confidential Information, as used in this section, does not include information that:

(i) is or becomes legally known and available to the public prior to or subsequent to its disclosure to the Consultant;

(ii) was acquired by the Consultant from a third party who was lawfully in possession of the information and under no obligation to the Company to maintain its confidentiality; or

(iii) was independently developed by the Consultant, without utilizing the Confidential Information of the Company.

(e) The Consultant acknowledges that any disclosure or unauthorized use of Confidential Information will constitute a material breach of this Agreement and cause substantial harm to the Company for which damages would not be a fully adequate remedy, and, therefore, in the event of any such breach, in addition to other available remedies, the Company shall have the right to obtain injunctive relief. The Consultant further agrees that, immediately upon the Company's request and in any event upon termination of this Agreement, the Consultant shall deliver to the Company all Confidential Information in the Consultant's possession.

## **5. Termination.**

**(a) Termination on Notice.** Either party may terminate this Agreement at any time during the Term by giving thirty (30) days prior written notice to the other party.

**(b) Termination on Default.** Should either party default in the performance of this Agreement or materially breach any of its provisions, the non-breaching party may terminate this Agreement by giving written notification to the breaching party. Termination shall be effective immediately on receipt of said notice. For purposes of this section, material breaches of this Agreement shall include, but not be limited to, (i) non-payment of compensation by the Company; (ii) the willful breach or habitual neglect by the Consultant of the duties which he is required to perform under the terms of this Agreement; or (iii) the Consultant's commission of acts of fraud or material misrepresentation against the Company.

**(c) Payment upon Termination.** In the event of termination of this Agreement pursuant to this Section 5, the Company shall promptly pay the Consultant (i) any consulting fees earned but unpaid before termination, and (ii) any expenses reasonably incurred by the Consultant

prior to termination, so long as the Consultant submits appropriate expense reimbursement requests within thirty (30) days following the date of the termination notice.

**6. Consultant's Representations.** The Consultant represents and warrants that:

(a) The Consultant's performance of the consulting services or of any term of this Agreement will not breach any agreement or understanding that the Consultant has with any other person or entity and that there is no other contract or duty now in existence inconsistent with the terms of this Agreement.

(b) During the Term of this Agreement, the Consultant shall not be bound by any agreement, nor assume any obligation, which would in any way be inconsistent with the consulting services to be performed by the Consultant under this Agreement.

(c) In performing the consulting services, the Consultant will not use any confidential or proprietary information of any other person or entity or infringe the intellectual property rights (including, without limitation, patent, copyright, trademark or trade secret rights) of any other person or entity nor will the Consultant disclose to the Company, or bring onto the Company's premises, or induce the Company to use any confidential information of any person or entity other than the Company or the Consultant.

(d) During the Term of this Agreement, the Consultant will not disclose to the Company, or use, or induce the Company to use, any proprietary information or trade secrets of others. The Consultant further represents and warrants that the Consultant's performance of the terms of this Agreement will not breach any agreement to keep in confidence proprietary information acquired by the Company Consultant in confidence or in trust prior to or concurrent with this Agreement with the Company. The Consultant has not entered into, and agrees not to enter into, any oral or written agreement in conflict with this one.

(e) The Consultant will abide by all applicable laws in the course of performing the Consulting Services.

(f) Consultant is acquiring the Shares, for its own account and not with a view towards, or for resale in connection with, the public sale or distribution thereof, except pursuant to sales registered or exempted under the 1933 Act; provided, however, that by making the representations herein, Consultant does not agree to hold any of the Shares for any minimum or other specific term and reserves the right to dispose of the Shares at any time in accordance with, or pursuant to, or a registration statement or an exemption under the 1933 Act. Consultant is acquiring the Shares hereunder in the ordinary course of its business. Consultant does not presently have any agreement or understanding, directly or indirectly, with any "Person" to distribute any of the Shares. For purposes of this Agreement, a "Person" is any individual, limited liability company, partnership, joint venture, corporation, trust, unincorporated organization and government or any department or agency thereof.

(g) Consultant is an “accredited investor” as that term is defined in Rule 501(a) of Regulation D under the 1933 Act. Consultant is not required to be registered as a broker dealer under Section 15 of the Securities Exchange Act of 1934 (“1934 Act”). Consultant is not purchasing the Shares as a result of any advertisement, article, notice or other communication regarding the Shares published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or to Consultant’s knowledge, any general solicitation or advertisement.

(h) Consultant understands that the Shares are being offered and sold to it in reliance on specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying in part upon the truth and accuracy of, and Consultant’s compliance with, the representations, warranties, agreements, acknowledgments and understandings of Consultant set forth herein in order to determine the availability of such exemptions and the eligibility of Consultant to acquire the Shares.

(i) Consultant and its advisors, if any, have been furnished with all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Shares which have been requested by Consultant. Consultant and its advisors, if any, have been afforded the opportunity to ask questions of the Company and to receive answers thereto concerning the Company and the transactions contemplated herein. Neither such inquiries nor any other due diligence investigations conducted by Consultant or its advisors, if any, or its representatives shall modify, amend or affect Consultant’s right to rely on the Company’s representations and warranties contained herein. Consultant understands that its investment in the Shares involves a high degree of risk. Consultant has sought such accounting, legal and tax advice as it has considered necessary to make an informed investment decision with respect to its acquisition of the Shares.

(j) Consultant acknowledges that it can bear the economic risk and complete loss of its investment in the Shares and has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the investment contemplated hereby.

(k) Consultant understands that no United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Shares or the fairness or suitability of the investment in the Shares nor have such authorities passed upon or endorsed the merits of the offering of the Shares.

**7. Notices.** All notices given under this Agreement shall be in writing. Any notice may be transmitted by any means selected by the sender. A notice that is mailed to a party at its address given below, registered or certified mail, return receipt requested, with all postage prepaid, will be deemed to have been given and received on the earlier of the date reflected on the return receipt or the third business day after it is posted. Any notice sent by facsimile

transmission to a party at its facsimile number given below shall be deemed to have been given and received upon confirmation of transmission by the sender's facsimile machine. Any notice transmitted by recognized overnight courier service to a party at its address given below shall be deemed given and received on the first business day after it is delivered to the courier. Any notice given by any other means shall be deemed given and received only upon actual receipt. The addresses and facsimile numbers of the parties for notice purposes are as follows:

**If to the Company:**

BioDrain Medical, Inc.  
Attn: Kevin R. Davidson, President & CEO  
699 Minnetonka Highlands Lane  
Orono, MN 55356  
Facsimile: (952) 476-2361

*With copy to (which shall not constitute notice):*

Richardson & Patel LLP  
Attn: Ryan S. Hong, Esq.  
10900 Wilshire Blvd, Suite 500  
Los Angeles, CA 90024  
Facsimile: (310) 208-1154

**If to the Consultant:**

Namaste Financial, Inc.  
Attn: Bill Glaser, CEO  
12233 Octagon Street  
Los Angeles, CA 90049

Any party may change its address or facsimile number for notice purposes, or add additional persons to whom copies of any notice should be sent, by written notice to the other party.

**8. Choice of Law, Jurisdiction and Venue.** This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of California, without giving effect to principles of conflicts of law. Any claim or dispute arising out of, connected with, or in any way related to this Agreement shall be instituted by the complaining party and adjudicated in a court of competent jurisdiction located in Los Angeles County, California, and the parties to this Agreement consent to the personal jurisdiction of and venue in such courts. In no event shall any party to this Agreement contest the personal jurisdiction of such courts over or the venue of such courts.

**9. Counterparts.** This Agreement may be executed manually or by facsimile signature in two or more counterparts, each of which shall be deemed an original, and all of which together shall constitute but one and the same instrument.

**10. Severability.** If any term or provision of this Agreement or the application thereof to any person or circumstance shall, to any extent, be determined to be invalid, illegal or unenforceable under present or future laws effective during the term of this Agreement, then and, in that event: (A) the performance of the offending term or provision (but only to the extent its application is invalid, illegal or unenforceable) shall be excused as if it had never been incorporated into this Agreement and, in lieu of such excused provision, there shall be added a provision as similar in terms and amount to such excused provision as may be possible and be legal, valid and enforceable, and (B) the remaining part of this Agreement (including the application of the offending term or provision to persons or circumstances other than those as to which it is held invalid, illegal or unenforceable) shall not be affected thereby and shall continue in full force and effect to the fullest extent provided by law.

**11. Preparation of Agreement.** It is acknowledged by each party that such party either had separate and independent advice of counsel or the opportunity to avail itself or himself of the same. In light of these facts it is acknowledged that no party shall be construed to be solely responsible for the drafting hereof, and therefore any ambiguity shall not be construed against any party as the alleged draftsman of this Agreement.

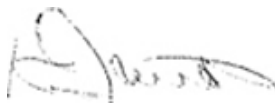
**12. Entire Agreement.** This Agreement supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to the services to be rendered by the Consultant to the Company and contains all of the covenants and agreements between the parties with respect to the services to be rendered by the Consultant to the Company in any manner whatsoever.

**[Signature Page Follows]**

WHEREFORE, the parties have executed this Agreement on the date first written above.

**COMPANY:**

**BioDrain Medical, Inc.**

By: 

---

Kevin R. Davidson, President and CEO

**CONSULTANT:**

**Namaste Financial, Inc.**

By: 

---

Bill Glaser, CEO

## CONSULTING AGREEMENT

This Consulting Agreement (the "Agreement") is entered into, effective as of June \_\_\_\_, 2008 (the "Effective Date"), by and among **BioDrain Medical, Inc.**, a Minnesota corporation, having an address at 699 Minnetonka Highlands Lane, Orono, MN, 55356-9728 (hereinafter "BioDrain") on the one hand, and, on the other hand, **Marshall C. Ryan** (hereinafter "**Ryan**"), individually, and **Mid-State Stainless, Inc.**, (hereinafter "**Mid-State**"), a Wisconsin corporation, having an address at 330 West Benson Avenue, P.O. Box 228, Grantsburg, WI 54840 (Ryan and Mid-State are hereinafter collectively referred to as "Consultant"). BioDrain and Consultant may be referred to in this Agreement, individually, as a "Party", and jointly, as "Parties."

## RECITALS

**WHEREAS**, BioDrain desires to retain Consultant, and Consultant desires to be so retained, to consult with and assist BioDrain in developing and commercializing an apparatus for the disposal of liquid surgical waste.

**NOW, THEREFORE**, in furtherance of the above recitals and subject to the terms and conditions set forth herein, the Parties agree as follows:

**1. Definitions.** In this Agreement, the terms defined parenthetically elsewhere and the following terms shall have the meanings there or here supplied. Terms may be used in the singular or the plural.

**1.1. Change in Control.** "Change in Control" as used herein shall mean an occurrence after the Effective Date of this Agreement, where any one person or entity (other than the current officers and directors of BioDrain and their affiliates) becomes the owner of fifty percent (50%) or more of the combined voting power of BioDrain's outstanding securities ordinarily having the right to vote at elections of directors, not including shares issuable pursuant to options, warrants, convertible debt or similar instruments.

**1.2 Customer.** "Customer" as used herein shall mean any individual or entity other than a Party.

**1.3. Developments.** "Developments" as used herein shall mean any invention, discovery, concept, improvement, innovation, or idea, whether or not patentable and whether or not reduced to practice, of Consultant (whether alone or jointly with BioDrain personnel) that relies upon or builds upon the disclosure or teachings of the Patents or that otherwise relates to the Technology.

**1.4. IP Rights.** "IP Rights" as used herein shall mean all patents, copyrights, trade secrets, trademarks, service marks, trade dress, mask works, and all other intellectual property or proprietary rights of every kind or nature, however designated, throughout the world, including all rights to file for applications therefore with any governmental agencies and to receive registrations, renewals, reissues and/or reexaminations thereon, together with all world wide rights to income, royalties, damages and payments due or

payable with respect thereto, and to all causes of action (either in law or in equity) associated therewith, including all rights to sue, counterclaim, and recover for infringement thereof.

**1.5. Net Sales.** "Net Sales" as used herein shall mean the total invoiced amount of any Product Sold to Customers by BioDrain and/or its licensees, less all discounts and allowances actually shown on the invoice, and less any bona fide returns actually made or allowed as supported by credit memoranda actually issued to Customers, and excluding all shipping charges, duties, sales taxes and excise taxes.

**1.6. Patents.** "Patents" as used herein shall mean United States Patent Application No. 10/524,086 having a filing date of February 9, 2005 and entitled "Method and Apparatus For Disposing of Liquid Surgical Waste For Protection of Healthcare Workers" and European Patent No. EP1539580 issued April 4, 2007 entitled "Method and Apparatus For Disposing of Liquid Surgical Waste For Protection of Healthcare Workers" and any patents or patent applications of the United States, foreign country or international patent authority which relate or claim priority thereto, including, but not limited, to all continuations, continuations-in-part, divisionals, reexaminations and reissues thereof.

**1.7. Products.** "Products" as used herein shall mean all current and all future commercial embodiments of any device within the scope of any claims of the Patents.

**1.8. Services.** "Services" as used herein shall have the meaning as ascribed in Section 2.

**1.9. Sold or Sale.** "Sold" or "Sale" as used herein shall mean the date when a Customer is invoiced for the Products.

**1.10. Technology.** "Technology" as used herein shall mean the collection and/or disposal of liquid surgical waste.

**1.11. Term.** "Term" as used herein shall mean the period commencing on the Effective Date and ending when there are no Patents which remain in force anywhere in the world, unless sooner terminated pursuant to Section 7 (Termination).

**1.12. Work Product.** "Work Product" shall mean any work of authorship (within the purview of the copyright laws of the United States of America), any invention, discovery, concept, improvement, innovation, or idea, (whether or not patentable, whether or not put into writing, and whether or not put into practice), whether conceived, produced or developed solely by efforts of Consultant or jointly with BioDrain personnel, in connection with Consultant's performance of the Services, including, but not limited to, all data, files, records, reports, compilations, methods, processes, procedures, systems, operations, techniques, formulas, designs, drawings, diagrams, models, samples, flow charts, algorithms, data, plans, lists, contracts, and computer programs, including any source code, object code, enhancements and modifications, all databases, all files, including input and output materials, all documentation related to such computer programs, databases and files, all media upon which any such computer program, database, files and documentation are located (including tapes, disks and other storage



devices) and all related material used by, developed for, or paid for by Consultant in connection with the performance of the Services.

## 2. **Obligations of Consultant**

**2.1 Duties of Consultant.** During the Term, Consultant will assist BioDrain in developing Products, serve as an advisor on current and future Products, assist BioDrain in securing any government or regulatory approvals or certifications, and upon request by BioDrain, respond to questions about the Products from third parties (collectively, the “Services”). All requests for such Services shall be made in writing by BioDrain. Consultant shall provide competent, professional services, using its own appropriate independent skill and judgment, and the manner and means that appears best suitable to it to perform the Services. Consultant shall, at all times, use best efforts to provide the Services. Consultant shall choose its own place and time of performance of work.

**2.2 Other Obligations.** In the performance of the Services, Consultant:

- (a) shall conduct all of its business in a businesslike and professional manner.
- (b) shall not, without BioDrain’s prior written approval, make representations, warranties or guarantees concerning the Products.
- (c) shall abide by BioDrain’s policies as provided by BioDrain in writing.

**2.3 Non-Competition.** Consultant shall not, at any time during the Term, on its own behalf, or on behalf of any person, directly or indirectly, in any capacity whatsoever, including, without limitation, as an employer, employee, principal, agent, joint venturer, partner, shareholder or other equity holder, independent contractor, licensor, licensee, franchisor, franchisee, distributor, consultant, supplier, trustee or by, through or in connection with any person, carry on or be engaged in or have any financial or other interest in or be otherwise commercially involved in any endeavor, activity or business that is in direct or indirect competition with the Products or the commercial activities of BioDrain.

**2.4 Compliance with Laws and Standards.** Consultant shall perform its obligations under this Agreement in compliance with all applicable laws.

**2.5 Disclosure of Developments.** Consultant shall promptly disclose in writing to BioDrain any and all Developments during the Term and for a period of one (1) year thereafter. Additionally, within thirty (30) days of the Effective Date, Consultant shall deliver to BioDrain a copy of any and all drawings and technical information within the possession or control of Consultant together with any other information which would be helpful to BioDrain in the understanding of the Technology, including any information relevant to the manufacture or use of devices based on the Technology.

## 3. **Compensation.**

**3.1 R & D Payment.** Biodrain shall pay to Consultant a one time payment of One

Hundred Thousand Dollars (\$100,000) as full compensation for all research and development fees and costs incurred by Consultant toward the development of the Technology (the "R&D Payment"). The R&D Payment shall be due and payable within twelve (12) months of the Effective Date. Notwithstanding the foregoing, if the current round of financing for BioDrain (to be completed no later than August 31, 2008) results in gross proceeds of at least 1.5 Million Dollars (\$1,500,000), BioDrain shall pay to Consultant at least Fifty Thousand Dollars (\$50,000) of the R&D Payment, within five (5) business days of receipt of the \$1.5 Million in financing.

**3.2 IP Payment.** Upon execution of this Agreement, and subject to Consultant executing the assignment agreement related to the Patents for recordation with the United States Patent and Trademark Office, BioDrain shall pay to Consultant Seventy Five Thousand Dollars (\$75,000) for such assignment of ownership of the Patents and all other Developments.

**3.3 Consulting Fees.** As full compensation for the performance of the Services requested by BioDrain pursuant to Section 2.1, the sufficiency of which is hereby acknowledged, BioDrain shall pay to Consultant a rate of Ninety Five Dollars per hour (\$95/hour). Consultant shall invoice BioDrain monthly for the Services rendered during the previous month. The invoice shall identify the number of hours worked in that month by Consultant in the performance of the Services. The invoices shall be due and payable by BioDrain within thirty (30) days of the invoice date.

**3.4 On-Going Royalties.** Subject to Section 3.6, BioDrain shall pay to Consultant, throughout the Term, a royalty of four percent (4%) of the Net Sales of each Product Sold. BioDrain shall render to Consultant on a calendar quarterly basis, within fifteen (15) days after the end of each calendar quarter during which the Products are Sold, a written statement of the royalties due to Consultant with respect to such Sold Products. Such statement shall be accompanied by a remittance of the royalty amount shown to be due. Consultant shall have the right, upon reasonable request, to review those records of BioDrain necessary to verify the royalties paid. Any such audit will be conducted at Consultant's expense and at such times and in such a manner as to not unreasonably interfere with BioDrain's normal operations. If a deficiency is shown by such audit, BioDrain shall immediately pay that deficiency.

**3.5 Stock-Purchase Warrant.** For a period up to and including the fifth (5th) year anniversary of the Effective Date, Consultant is entitled to subscribe for and purchase up to One Hundred Fifty Thousand (150,000) shares of BioDrain common stock at a price of Thirty-Five Cents (\$0.35) per share.

**3.6 Minimum Royalties.** If there is a Change in Control within the time periods set forth in Section 3.6.1, 3.6.2 or 3.6.3 below, the respective minimum royalty payments shall be owed as follows:

**3.6.1 Change In Control Within 12 Months of the First Sale.** If there is a Change in Control up to and including the first twelve (12) month period after the first Sale of any Products, Consultant shall be paid a minimum of Two Million

Dollars (\$2,000,000) in royalties (the “\$2MM Minimum Royalty Payment”) payable in increments of Five Thousand Dollars (\$5,000) per calendar month throughout the remainder of the Term. If the \$2MM Minimum Royalty Payment is not met by the end of the Term, the remaining unpaid balance of the \$2MM Minimum Royalty Payment shall be due and payable in one lump sum within thirty (30) days of the end of the Term.

**3.6.2 Change In Control Between 12 - 24 Months of the First Sale.** If there is a Change in Control after the first twelve (12) month period but up to and including the first twenty four (24) month period after the first Sale of any Products, Consultant shall be paid a minimum of One Million Dollars (\$1,000,000) in royalties (the “\$1MM Minimum Royalty Payment”) payable in increments of Five Thousand Dollars (\$5,000) per calendar month throughout the remainder of the Term. If the \$1MM Minimum Royalty Payment is not met by the end of the Term, the remaining unpaid balance of the \$1MM Minimum Royalty Payment shall be due and payable in one lump sum within thirty (30) days of the end of the Term.

**3.6.3 Between 24 - 36 Months of the First Sale.** If there is a Change in Control of BioDrain after the first twenty four (24) month period but up to and including the first thirty six (36) month period after the first Sale of any Products, Consultant shall be paid a minimum of Five Hundred Thousand Dollars (\$500,000) in royalties (the “\$500M Minimum Royalty Payment”) payable in increments of Five Thousand Dollars (\$5,000) per calendar month throughout the remainder of the Term. If the \$500M Minimum Royalty Payment is not met by the end of the Term, the remaining unpaid balance of the \$500M Minimum Royalty Payment shall be due and payable in one lump sum within thirty (30) days of the end of the Term.

**4. Ownership of Developments.** All Developments shall be the sole and exclusive property of BioDrain, and all rights, title and interest in and to such Developments including any and all IP Rights therein, are hereby expressly assigned automatically to BioDrain without further consideration. Consultant will, at BioDrain’s request and expense, execute any documents that BioDrain deems necessary or appropriate to perfect, protect, enforce, register, or transfer ownership of the Developments including any and all IP Rights therein to BioDrain. BioDrain may, in its sole discretion and without Consultant’s prior approval, transfer, sell, assign, or license the Developments and any and all IP Rights therein to any third party.

**5. Confidentiality.**

**5.1. Non-Use and Non-Disclosure by Consultant.** Consultant acknowledges and agrees that by entering into this Agreement it is entering into a relationship of trust and confidence with BioDrain. Consultant will not use or disclose to any third party any non-public information about BioDrain or any of BioDrain’s products, customers, or clients, learned as a result of this Agreement or in the course of performing any of the Services. During the Term, Consultant will maintain all Work Product strictly confidential and will

not disclose any such Work Product to any third party, in whole or in part, without first obtaining BioDrain's prior written consent.

**5.2 Return of information, documents and things.** At any time upon BioDrain's request and in any event, upon termination of this Agreement pursuant to Sections 7, Consultant will deliver to BioDrain all originals and copies of all Work Product in Consultant's possession or control.

**5.3. Injunctive Relief.** Consultant acknowledges and agrees that it would be difficult to fully compensate BioDrain for damages resulting from the breach or threatened breach of Section 5.1 and, accordingly, that BioDrain will be entitled to temporary and permanent injunctive relief, including temporary restraining orders, preliminary injunctions and permanent injunctions, to enforce Sections 5.1 and 5.2. This Section 5.3 will not, diminish BioDrain's right to claim and recover damages, attorneys fees or costs incurred to enforce this Section 5.3 or for breach or threatened breach of Sections 5.1 and/or 5.2.

**5.4 Disclosure Required by Law.** Notwithstanding anything to the contrary in this Agreement, the Consultant may disclose such information otherwise precluded under Sections 5.1 and 5.2 to the extent required to be disclosed pursuant to a judicial or administrative process, provided that Consultant provides prompt written notice to BioDrain and allows BioDrain a reasonable time to oppose the judicial order or administrative process.

**6. Specific Enforcement.** The Parties acknowledge and agree that if a Party hereto should breach or fail to perform any of such Party's obligations under this Agreement, the other Party would suffer irreparable damage. Accordingly, it is expressly understood and agreed to by the Parties that, except for termination pursuant to Section 7.1 (Immediate Termination), the only remedy available against a Party for breach of any term or condition or for failure to perform any of its obligation under this Agreement, is the specific enforcement of such terms, conditions or obligations against such breaching Party and that the non-breaching Party shall be entitled, upon application to a court of competent jurisdiction, to specific performance of the terms of this Agreement.

## **7. Termination.**

**7.1 Immediate Termination for Breach of Sections 2.3, 2.5 or 5.** BioDrain may terminate this Agreement immediately upon written notice to Consultant if it is found by a court of competent jurisdiction that Consultant has breached Section 2.3 (Non-Compete), Section 2.5 (Disclosure of Developments) or Section 5 (Confidentiality).

**7.2 Effect of Termination.** The Parties understand and agree that, except for the obligations that survive termination of this Agreement pursuant to Section 7.3 below, termination of this Agreement will forever discharge and excuse completion of or performance of any liability or obligation herein undertaken or occurring prior to the effective date of such termination.

**7.3 Survival.** In the event this Agreement is terminated pursuant to Section 7.1, the provisions of Sections 2.3, 2.5, 4, 5, 6, 7.2, 7.3 and 8 of this Agreement will survive such termination.

## **8. Miscellaneous.**

**8.1 Modification.** No alteration, amendment, waiver, cancellation or any other change in any term or condition of this Agreement shall be valid or binding on either Party unless the same shall have been mutually assented to in writing by both Parties.

**8.2 Severability.** If any provision of this Agreement is held to be unenforceable for any reason, such provision shall be reformed only to the extent necessary to make it enforceable, and such holding shall not impair the validity, legality or enforceability of the remaining provisions.

**8.3 Waiver.** The failure of any Party to enforce at any time the provisions of this Agreement, or the failure to require at any time performance by any other Party of any of the provisions of this Agreement, shall in no way constitute a present or future waiver of such provisions, nor in any way affect the ability of any Party to enforce each and every such provision thereafter. No waiver shall be binding unless in writing and signed by the Party waiving the breach.

**8.4 Effect of Headings.** This Agreement shall be construed without reference to headings. Headings to sections and paragraphs are to facilitate reference only and do not form a part of this Agreement.

**8.5 Assignability.** The duties and obligations under this Agreement are personal to Consultant and may not be assigned or delegated by Consultant without the express written consent of BioDrain. Any prohibited assignment or delegation will be null and void. BioDrain may assign this Agreement and its rights and obligations under this Agreement upon written notice to Consultant. This Agreement will be binding upon and will inure to the benefit of the Parties and their respective, permitted successors and assigns.

**8.6 Relationship.** The Parties are separate and independent legal entities. Nothing contained in this Agreement should be deemed to constitute either Party being an agent, representative, partner, joint venturer or employee of the other Party for any purpose. Neither Party has the authority to bind the other or to incur any liability on behalf of the other, nor to direct the employees of the other.

**8.7 Notices.** For purposes of all notices and other communications required or permitted to be given hereunder, the addresses of the Parties will be as identified above. All notices will be in writing and will be deemed to have been duly given if sent by facsimile, the receipt of which is confirmed by transmittal receipt, or by a nationally recognized courier, addressed to the Parties at their addresses set forth above. Any Party may change the address to which subsequent notices are to be sent by written notice to the other Party as provided herein.

**8.8 Counterparts.** This Agreement may be executed in multiple counterparts, with each such counterpart deemed to be an original instrument. Counterparts of this Agreement may also be exchanged via electronic facsimile machines, and any electronic facsimile of any Party's signature shall be deemed to be an original signature for all purposes.

**8.9 Governing Law; Venue and Jurisdiction.** This Agreement shall be governed by the laws of the state of Minnesota. For the purpose of resolving conflicts related to or arising out of this Agreement, the Parties expressly agree that venue shall be exclusively in the state of Minnesota, county of Hennepin. The Parties hereby consent to the exclusive jurisdiction of the federal and state courts of the state of Minnesota, county of Hennepin, and expressly waive any objection to personal jurisdiction, improper venue and/or convenience of such forums.

**8.10 Integration.** Except for the Manufacturing Agreement having an effective date of May 4, 2006 and the Supply Agreement having an effective date of December 13, 2006, upon execution of this Agreement, all other prior agreements between the Parties are hereby null and void, such that this Agreement shall constitute the exclusive and entire agreement between the Parties with respect to the Patents, the Technology and their relationship and business dealings, and as of its date shall supersede all prior or contemporaneous agreements, letters, negotiations, representations and proposals, written or oral, relating thereto. The Parties hereby acknowledge and agree that promptly after execution of this Agreement, the above referenced Manufacturing Agreement and Supply Agreement will be redrafted or otherwise restated or amended with mutually agreeable terms and conditions.

BY EXECUTING THIS AGREEMENT, EACH PARTY ACKNOWLEDGES THAT IT HAS READ AND UNDERSTANDS THIS AGREEMENT AND AGREES TO BE BOUND BY ITS TERMS AND PROVISIONS.

BioDrain, Inc.  
Signature: /s/ Kevin R. Davidson  
\_\_\_\_\_  
Name: President and Chief Executive Officer  
\_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

Consultant, Marshall C. Ryan, individually  
Signature /s/ Marshall C. Ryan  
\_\_\_\_\_  
Date: \_\_\_\_\_  
\_\_\_\_\_  
Consultant, Mid-State Stainless, Inc.  
Signature: \_\_\_\_\_  
Name: Marshall C. Ryan  
\_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

INVESTOR RELATIONS AGREEMENT

This Agreement is made as of this 15th day of April 2008, by and between BioDrain Medical, Inc., a Minnesota corporation (the "Company"), a corporation duly organized and existing under the laws of the State of Minnesota, having its principal place of business at 699 Minnetonka Lane, Orono, Minnesota 55356, and Kulman JR, LLC (the "Consultant"), a limited liability company duly organized and existing under the laws of the State of Florida, with offices at 18851 N. E. 29<sup>th</sup> Avenue, Suite 700, Aventura, Florida 33180.

WHEREAS, the Company is a medical device company;

WHEREAS, the Consultant is experienced in providing consulting and investor relations advice to publicly-traded companies and;

WHEREAS, the Company wishes to retain the services of the Consultant on a non-exclusive basis on the following terms and conditions:

1. The Company hereby retains the services of the Consultant for a period of twelve months, commencing with the completion of the Company's financing.
2. In exchange for the Consulting Services (as that term is defined below) rendered during the Initial Term, the Consultant shall receive a monthly cash fee of \$5,000 per month paid on the 15th of every month. The first cash fee is due upon completion of the Company's financing. The Consultant shall also receive a certificate for 250,000 shares of restricted common stock (herein after "Shares") of the Company. These certificates are to be delivered within 10 days of the completion of the Company's financing. These shares are irrevocable and the Company shall take no action to cause such securities to be voided or revoked or the issuance to be otherwise terminated. The Company acknowledges that the Consultant intends to transfer or assign some of the Shares to certain of its members, directors, consultants and employees and will instruct the Company accordingly.

The Consultant shall be reimbursed the actual cost of obtaining the requisite legal opinion for the purpose of registering the Consultant's Shares. The Company agrees to provide the name and contact information of the legal counsel that will render the legal opinion. The Company also agrees that if for any reason that legal counsel is not providing said legal opinion in a timely manner, the Company will accept a third party legal opinion in its stead.

The Consultant shall be reimbursed actual reasonable travel and other out of pocket expenses which will be billed in arrears and are due payable within (15) days of the Company's receipt of the subject bill(s). All travel and out-of-pocket expenses are to be pre-approved by the Company.

3. The Consultant shall utilize its best efforts to provide the following services to the Company: (a) assist the Company in making presentations to interested brokerage firms, ledge funds and institutional investors that buy and follow the medical device businesses (b) coordinate meetings with analysis to cover the Company's stock and help disseminate the Company's investment profile to these analysis, as well as brokerage firms, ledge fund managers and institutional investors through a variety of electronic and manual sources, (c) a review of public relations and marketing materials that have been, or may be distributed to the U.S. financial community and make appropriate suggestions as to how these materials can or should be changed, (d) advise the Company on symposium presentations, as well as investor conferences, (e) assist the Company through Consultant's existing and future relationships in areas relating to future financings, mergers, acquisitions and potential buyouts; the parties agree that any such transaction will be subject to a separate fee agreement between the parties and limited to transactions generated by the Consultant, excluding any transactions generated by other parties for which the Consultant will not be entitled to compensation, (f) at the appropriate time, have the Company deliver presentations to the staff of the
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Consultant, as well as the offices of other brokerage firms with whom the Consultant maintains a relationship, and (g) through media contacts, attempt to initiate interviews for the Company on news shows such, as CNBC, CNN and Bloomberg. The services referred to in this paragraph shall be known as the "Consulting Services".

4. The Consultant shall be an independent contractor and shall have no right or authority to assume or create any obligations or responsibility, express or implied, on behalf of or in the name of the Company, unless specifically authorized in writing by the Company. No provision of this Agreement shall be construed to preclude the Consultant, or any officer, director, agent, assistant, affiliate or employee of the Consultant from engaging in any activity whatsoever, including, without limitation receiving compensation for managing investments, or acting as an advisor, broker-dealer to, or participate in, any corporation, partnership, trust or other business entity or from receiving compensation or profit therefrom. The Consultant shall have no obligation to present any business combination to the Company and shall incur no liability for its failure to do so.

5. The Consultant (including any person or entity acting for or on behalf of the Consultant) shall not be liable for any mistakes of fact, errors of judgment, for losses sustained by the Company or any subsidiary or for any acts or omissions of any kind, unless caused by the gross negligence or intentional misconduct of the Consultant or any person or entity acting for or on behalf of the Consultant.

6. (a) The Company and its present and future subsidiaries, jointly and severally, agree to indemnify and hold harmless the Consultant and its present and future members as well as its and their officers, directors, affiliates, associates, employees, members, attorneys and agents ("Indemnified Parties" or "Indemnified party") against any loss, claim, damage or liability whatsoever (including reasonable attorneys' fees and expenses), to which such Indemnified Party may become subject as a result of performing any act (or omitting to perform any act) contemplated to be performed by the Consultant pursuant to this Agreement if such act or omission did not violate the provisions of Section 4 of this Agreement. So long as the Company has not provided counsel to the Indemnified Party in accordance with the terms of this Agreement, the Company and its subsidiaries agree to reimburse the defense of any action or investigation (including reasonable attorneys' fees and expenses) subject to an understanding from such Indemnified Party to repay the Company or its subsidiaries if it is ultimately determined that such Indemnified Party is not entitled to such indemnity. In case any action, suit or proceeding shall be brought or threatened, in writing, against any Indemnified Party, it shall notify the Company within twenty (20) days after the Indemnified Party receives notice of such action, suit or such threat. The Company shall have the right to appoint the Company's counsel to defend such action, suit or proceeding, provided that such Indemnified Party consents to such representation by such counsel, which consent shall not be unreasonably withheld. In the event any counsel appointed by the Company shall not be acceptable to such Indemnified Party, then the Company shall have the right to appoint alternative counsel for such Indemnified Party reasonably acceptable to such Indemnified Party, until such time as acceptable counsel can be appointed. In any event, the Company shall, at its sole cost and expense, be entitled to appoint counsel to appear and participate as co-counsel in the defense thereof. The Indemnified Party, or its co-counsel, shall promptly supply the Company's counsel with copies of all documents, pleadings and notices that are filed, served or submitted in any of the aforementioned. No Indemnified Party shall enter into any settlement without the prior written consent of the Company, which consent shall not be unreasonably withheld.



(b.) The Consultant and its present and future subsidiaries, jointly and severally, agree to indemnify and hold harmless the Company and its present and future members as well as its and their officers, directors, affiliates, associates, employees, members, attorneys and agents (“Indemnified Parties” or “Indemnified party”) against any loss, claim, damage or liability whatsoever (including reasonable attorneys’ fees and expenses), to which such Indemnified Party may become subject as a result of performing any act (or omitting to perform any act) contemplated to be performed by the Company. So long as the Consultant has not provided counsel to the Indemnified Party in accordance with the terms of this Agreement, the Consultant and its subsidiaries agree to reimburse the defense of any action or investigation (including reasonable attorneys fees and expenses) subject to an understanding from such Indemnified Party to repay the Consultant or its subsidiaries if it is ultimately determined that such Indemnified Party is not entitled to such indemnity. In case any action, suit or proceeding shall be brought or threatened, in writing, against any Indemnified Party, it shall notify the Consultant within twenty (20) days after the Indemnified Party receives notice of such action, suit or such threat. The Consultant shall have the right to appoint the Consultant’s counsel to defend such action, suit or proceeding, provided that such Indemnified Party consents to such representation by such counsel, which consent shall not be unreasonably withheld. In the event any counsel appointed by the Consultant shall not be acceptable to such Indemnified Party, then the Consultant shall have the right to appoint alternative counsel for such Indemnified Party reasonably acceptable to such Indemnified Party, until such time as acceptable counsel can be appointed. In any event, the Consultant shall, at its sole cost and expense, be entitled to appoint counsel to appear and participate as co-counsel in the defense thereof. The Indemnified Party, or its co-counsel shall promptly supply the Consultant’s counsel with copies of all documents, pleadings and notices that are filed, served or submitted in any of the aforementioned. No Indemnified Party shall enter into any settlement without the prior written consent of the Consultant, which consent shall not be unreasonably withheld.

7. This Agreement shall be binding upon the Company and the Consultant and their respective successors and assigns.

8. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever; (i) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (ii) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held, invalid illegal or unenforceable.

9. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both parties hereto. No waiver of any other provisions hereof (whether or not similar) shall be binding unless executed in writing by both parties hereto nor shall such waiver constitute a continuing waiver.

10. This Agreement may be executed in one or more counterparts each of which shall for all purposes be deemed to be an original but all of which shall constitute one and the same Agreement.

11. This Agreement shall be governed by the laws of the State of Minnesota. The parties agree that, should any dispute arise in the administration of this Agreement, the dispute shall be resolved through arbitration under the rules of the American Arbitration Association.

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12. This Agreement contains the entire agreement between the parties with respect to the services to be provided to the Company by the Consultant and supersedes any and all prior understandings, agreement or correspondence between the parties.

IN WITNESS WHEREOF, the Company and the Consultant have caused this Agreement to be signed by their duly authorized representatives as of the day and year first above written.

BioDrain Medical, Inc

Kulman IR. LLC

By: 

By: 

\_\_\_\_\_  
Name: Kevin Davidson  
Title: President & CEO

\_\_\_\_\_  
Name: Craig M. Kulman  
Title: managing member

**FINDER AGREEMENT**

This Finder Agreement (“Agreement”) is made and effective March 10, 2008 (“Effective Date”), by and between Thomas Pronesti (“Finder”) and BioDrain Medical Inc., a Minnesota corporation (the “Company”).

Now, therefore, finder and the Company agree as follows;

1. **Services.** The Company shall, and hereby does, grant Finder the non-exclusive right to present, introduce and/or refer to the Company a limited number of qualified investors residing in the state of California and other jurisdictions expressly approved in writing by the Company (“Investors”) who may purchase shares of the Company’s common stock (“Common Stock”) that are being offered to the public in a direct offering by the Company (“Public Offering”) pursuant to a registration statement filed with the Securities and Exchange Commission (“SEC”) and declared effective on August 9, 2007. The Company shall affect the sale and shall retain sole discretion in determining whether or not to enter into any transaction with any Investor and may accept or reject any subscription made by any Investor identified by Finder hereunder. This Agreement shall be non-exclusive as to both the Company and Finder.

2. **Term.** Finder shall provide services to the Company pursuant to this Agreement for a term commencing on the date of this Agreement and ending upon termination of This Company’s Public Offering or one year from the date hereof, whichever is earlier, or unless sooner terminated in accordance with the provisions of Section 5.

3. **Compensation.**

3.1 The Company shall pay Finder a referral fee in cash equal to ten percent (10%) of the gross proceeds received by the Company from Investors introduced to the Company through Finder’s direct efforts. Cash referral fees shall be paid upon receipt of invoice, provided that gross proceeds have cleared into good funds deposited in the designated bank account of the Company. Finder may elect to receive all or part of the cash referral fee in the form of the Company’s restricted Common Stock based upon the Fair Market Value of the Common Stock on the date such referral fees shall become due and payable.

3.2. The Company shall also issue to Finder restricted Common Stock of the Company equal to ten percent (10%) of the gross proceeds received by the Company from Investors introduced to the Company through Finder’s direct efforts, based upon the Fair Market Value of the Common Stock on the date any referral fees shall become due and payable.

(a) If the Company prepares and files a registration statement under the Securities Act of 1933, as amended, (the “Act”) or otherwise registers securities under the Act as to any of its securities (other than under a registration statement pursuant to Form S-8 or Form S-4) (each such filing, a “Registration Statement”), it will give written notice by registered mail, at least 20 days prior to the filing of such Registration Statement to the Finder of its intention to do so. The Company shall include all shares of common Stock held by the Finder (the “Registrable Securities”) in such Registration Statement with respect to which the Company has received written requests for Inclusion therein within 15 days of actual receipt of the Company’s notice. The Company shall use its reasonable best efforts to file the Registration Statement as soon as practicable. The Company shall use its reasonable best efforts to have such Registration Statement declared effective by the Securities and Exchange Commission as soon as practicable.

3.3. The compensation described in paragraphs 3.1 and 3.2 (above) shall reflect only compensation for the sale of shares pursuant to Company’s Public Offering and shall not apply to any other type of financing transaction contemplated by the Company. Finder shall bear all of Finder’s own expenses incurred in the performance of this Agreement. The Company shall incur the expense of mailing investment information to Investors.

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3.4 "FAIR MARKET VALUE" means, as of any date, the value of a share of the Company's Common Stock determined as follows:

(a) if such Common Stock is publicly traded and is then listed on a national securities exchange, its closing price on the date of determination on the principal national securities exchange on which the Common Stock is listed or admitted to trading;

(b) if such Common Stock is NASDAQ Capital Market, its closing price all the Market, respectively, on the date of determination quoted on the NASDAQ National Market or the NASDAQ National Market or the NASDAQ Capital

(c) if such Common Stock is not listed on a national securities exchange or quoted on the NASDAQ National Market or the NASDAQ Capital Market, but is traded in the over-the-counter market, the average of the bid and ask prices for a share of Common Stock on the most recent date on which the Common Stock was publicly traded.

(d) if none of the foregoing is applicable, by the Company's Board of Directors in good faith.

4. **Confidential Information.** Finder shall not without the prior written consent of the Company, disclose to anyone any Confidential Information. "Confidential Information" for the purpose of this Agreement shall include the Company's proprietary and confidential information such as, but not limited to, customer lists, business plans marketing plans, financial information, designs, drawing, specifications, models, software, source codes and object codes. Confidential Information shall not include any information that: (A) Is disclosed by the Company without restriction, (B) Becomes publicly available through no act of Finder or (C) Is rightfully received by Finder from a third party.

5. **Termination.** This Agreement may be terminated by either party at any time for any reason, by providing the other party with written notification of such termination. Termination shall become effective upon the later of the date of actual receipt of such notice of five (5) calendar days after deposit of such notice in the U.S. mail, first class postage prepaid addressed to the other party. The date of deposit in the U.S. mail shall be determined by the postmark or cancellation date. The referral fee payment obligations of the Company shall survive for a period of one (1) year following termination of this Agreement with regard to any Investors referred by Finder, notwithstanding the termination of this Agreement by either party for any reason.

6. **Independent Contractor.** Finder is and throughout this Agreement Shall be an independent contractor and not an employee, partner or agent of the Company. Finder Shall not be entitled to nor receive any benefit normally provided to the Company's employees such as, but not limited to vacation payment, retirement, health care or sick pay. The Company shall not be responsible for withholding income or other taxes from the payments made to finder. Finder shall be solely responsible for filing all returns and paying any income, social security or other tax levied upon or determined with respect to the payments made to Finder pursuant to this Agreement.

7.0 **Finder's Representations.** The finder represents warrants and covenants to the Company that each of the following are true and complete as of the Effective Date:

7.1 **Accredited Investor.** Finder is an "Accredited Investor" as that term is defined in Securities and Exchange Commission Rule 501 of Regulation of the Act.

7.2 **Investment Experience.** Finder hereby acknowledge and represents that (i) Finder has prior investment experience, including in non-listed and unregistered securities, or that Finder has employed the services of an investment advisor, attorney and/or accountant to read all of the documents furnished or made available by the Company to Finder to evaluate the merits and risks of such an investment on Finder's behalf; (ii) Finder recognizes the highly speculative nature of an investment in the Common Stock; and (iii) Finder is able to bear the economic risk and illiquidity which Finder assumes by investing in the Common Stock.

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7.3 Qualified Investor. Finder has a preexisting personal or business relationship with the Company, or by reason of Finder's business or financial experience or the business or financial experience of Finder's professional advisors who are unaffiliated with and who are not compensated by the Company, directly or indirectly could be reasonably assumed to have the capacity to evaluate the merits and risks of an investment in the Company and to protect Finder's own interests in connection with such an investment.

7.4 Access to Data. Finder hereby represents that Finder (i) has been furnished by the Company during the course of this transaction with all the information regarding the Company which Finder has requested or desired to know; (ii) has been afforded the opportunity to ask questions of and receive answers from duly authorized officers or other representatives of the Company concerning the terms and conditions of the Common Stock; (iii) has been furnished by the Company with any of the Company SEC Reports which Finder has requested, and (iv) has received any additional information which Finder has requested.

7.5 Investment Intent. Finder is acquiring the Common Stock for investment for its own account, not as a nominee or agent and not with the view to, or for resale in connection with, any distribution thereof. Finder understands that the Common Stock to be purchased has not been registered under the Securities Act of 1933, as amended (the "Securities Act") by reason of a specific exemption from the registration provisions of the Securities Act, the availability of which depends upon, among other things, the bonafide nature of the investment intent and the accuracy of the Finder's representations as expressed herein.

7.6 Rule 144. Finder acknowledges that the Common Stock must be held for a period of at least six months unless subsequently registered under the Securities Act or unless an exemption from such registration is available. Finder is aware of the provisions of Rule 144 promulgated under the Securities Act which permit limited resale of shares after a period of six months subject to the satisfaction of certain conditions, including, among other things, the existence of a public market for the shares, the availability of certain current public information about the Company, the sale being effected through a "broker's transaction" or in transactions directly with a "market maker" and the number of shares being sold during any three month period not exceeding specified limitations.

7.7 Authorization. This Agreement, when executed and delivered by Finder, will constitute a valid and legally binding obligation of finder, enforceable in accordance with its terms, subject to laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies.

7.8 No Consent. No consent, approval or authorization of or designation, declaration or filing with any governmental authority on the part of Finder is required in connection with the valid execution and delivery of this Agreement.

7.9 Tax Liability. Finder has reviewed with his own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by this Agreement. With respect to such tax consequences, Finder relies solely on such advisors and not on any statements or representations of the Company or any of its agents. Finder understands and agrees that the (and not the Company) shall be responsible for any tax consequence to Finder that may arise as a result of this investment or the transactions contemplated by this Agreement.

7.10 High Risk. Finder realizes that an investment in the Common Stock involves a high degree of risk. Finder is able to bear the risk of the investment, to hold the Common Stock for an indefinite period of time and to suffer a complete loss of Finder's investment.

7.11 Legends. Each certificate or instrument representing the Common Stock will be endorsed with the following or similar legends:

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(i) "These securities have not been registered under the Securities Act of 1993, as amended (the "Securities Act"), or any state securities laws and may not be sold or otherwise transferred or disposed of except pursuant to an effective registration statement under the Securities Act and any applicable state securities laws, or an opinion of counsel satisfactory to counsel to the issuer that an exemption from registration under the Securities Act and any applicable state securities laws is available:

(ii) Any other legends required by applicable state blue sky laws. The Company need not register a transfer of any Common Stock, and may also instruct its transfer agent not to register the transfer of such Common Stock, unless the conditions specified in this Agreement are satisfied.

7.12. Ender is not a broker-dealer, Limitation or Finder activities. Finder has fully disclosed to the Company that it is not a broker-dealer and does not have or hold a license to act as such. None of the activities of finder are intended to provide the services of a broker-dealer to the Company.

8. Expenses. Unless otherwise agreed to by the Company in advance, Finder shall be solely responsible for procuring, paying for and maintaining any computer equipment, software, paper, tools or supplies necessary or appropriate for the performance of finder's services hereunder.

9. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota.

10. Headings. The headings in this Agreement are inserted for convenience only and shall not be used to define, limit or describe the scope of this Agreement or any of the obligations herein.

11. Entire Agreement. This Agreement constitutes the final understanding and agreement between the parties with respect to the subject matter hereof and supersedes all prior negotiations, understandings and agreements between the parties, whether written or oral. This Agreement may be amended, supplemented or changed only by an agreement in writing signed by both of the parties.

12. Notices. Any notice required to be given or otherwise given pursuant to this Agreement shall be in writing and shall be hand delivered, mailed by certified mail, return receipt requested or sent by recognized overnight courier service, at the address shown below, or at such other address or addresses as either party shall designate to the other in accordance with this Section 12.

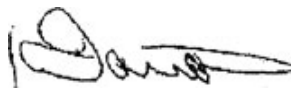
13. Severability. If any term of this Agreement is held by a court of competent jurisdiction to be invalid or unenforceable, then this Agreement, including all of the remaining terms, shall remain in full force and effect as if such invalid or unenforceable term had never been included.

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

IN WITNESS WHEREOF, This Agreement has been executed by the parties as of the date first written above.

FINDER

BioDrain Medical, Inc.



Thomas Pronesti  
1462 Commodore Way  
Hollywood, FL 33019

Kevin Davidson, CEO  
BioDrain Medical, Inc.  
699 Minnetonka Highlands Lane  
Orono, Minnesota 55356



CONVERTIBLE DEBENTURE

699 Minnetonka Highlands Lane  
Orono, MN 55356-9728

\$1,000.00

February 2, 2007

**FOR VALUE RECEIVED**, the undersigned, "BioDrain Medical, Inc.," a Minnesota company ("**Maker**"), hereby promises to pay to the order of Kevin R. Davidson ("**Payee**"), at the address of Payee specified below, the principal sum of one thousand dollars (\$1,000.00), in lawful money of the United States of America, together with interest thereon, at the rate set forth below.

**1. The principal of and interest upon this Note shall be due and payable as follows:**

- (a) This Note shall bear interest at a per annum rate of interest of 8.25% based upon a year of 365 days and actual days elapsed.
- (b) The entire unpaid principal balance of this Note and accrued interest hereunder shall be due and payable in full no later than July 31, 2007, the **Maturity Date**

**2. Convertibility terms:** The debenture is convertible to BioDrain common stock at \$1.00 per share.

The undersigned may at any time prepay all or any portion of the principal or interest owing hereunder.

Maker hereby waives presentment, demand, notice of dishonor, protest, notice of protest and all other demands, protests and notices in connection with the execution, delivery, performance, collection and enforcement of this Note. Payee shall have full recourse against the undersigned, and shall not be required to proceed against the assets of the Maker in the event of default. Maker shall pay all costs of collection when incurred, including reasonable attorneys' fees, costs and expenses.

This Note is being delivered in, is intended to be performed in, shall be construed and interpreted in accordance with, and be governed by the internal laws of, the State of Minnesota, without regard to principles of conflict of laws.

BIODRAIN MEDICAL, INC.

Kevin R. Davidson

By: \_\_\_\_\_



Title: \_\_\_\_\_

16771 Ironwood Circle  
Lakeville, MN 55044



CONVERTIBLE DEBENTURE

699 Minnetonka Highlands Lane  
Orono, MN 55356-9728

\$1,000.00

February 2, 2007

**FOR VALUE RECEIVED**, the undersigned, "BioDrain Medical, Inc.," a Minnesota company ("**Maker**"), hereby promises to pay to the order of Peter L. Morawetz ("**Payee**"), at the address of Payee specified below, the principal sum of one thousand dollars (\$1,000.00), in lawful money of the United States of America, together with interest thereon, at the rate set forth below.

**1. The Principal of and interest upon this Note shall be due and payable as follows:**

- (a) This Note shall bear interest at a per annum rate of interest of 8.25% based upon a year of 365 days and actual days elapsed.
- (b) The entire unpaid principal balance of this Note and accrued interest hereunder shall be due and payable in full no later than July 31, 2007, the **Maturity Date**

**2. Convertibility terms:** The debenture is convertible to BioDrain common stock at \$1.00 per share.

The undersigned may at any time prepay all or any portion of the principal or interest owing hereunder.

Maker hereby waives presentment, demand, notice of dishonor, protest, notice of protest and all other demands, protests and notices in connection with the execution, delivery, performance, collection and enforcement of this Note. Payee shall have full recourse against the undersigned, and shall not be required to proceed against the assets of the Marker in the event of default. Maker shall pay all costs of collection when incurred, including reasonable attorneys' fees, costs and expenses.

This Note is being delivered in, is intended to be performed in, shall be construed and interpreted in accordance with, and be governed by the internal laws of, the State of Minnesota, without regard to principles of conflict of laws.

BIODRAIN MEDICAL, INC.

Peter L. Morawetz



By: \_\_\_\_\_

\_\_\_\_\_

Title: \_\_\_\_\_

5037 Faberge Place  
Sarasota, MN 34233

9/21/07

**CONVERTIBLE DEBENTURE**

699 Minnetonka Highlands Lane  
Orono, MN 55356-9728

\$1,000.00

February 2, 2007

**FOR VALUE RECEIVED**, the undersigned, "BioDrain Medical, Inc.," a Minnesota company ("**Maker**"), hereby promises to pay to the order of Andrew P. Reding ("**Payee**"), at the address of Payee specified below, the principal sum of one thousand dollars (\$1,000.00), in lawful money of the United States of America, together with interest thereon, at the rate set forth below.

**1. The principal of and interest upon this Note shall be due and payable as follows:**

- (a) This Note shall bear interest at a per annum rate of interest of 8.25% based upon a year of 365 days and actual days elapsed.
- (b) The entire unpaid principal balance of this Note and accrued interest hereunder shall be due and payable in full no later than July 31, 2007, the **Maturity Date**

**2. Convertibility terms:** The debenture is convertible to BioDrain common stock at \$1.00 per share.

The undersigned may at any time prepay all or any portion of the principal or interest owing hereunder.

Maker hereby waives presentment, demand, notice of dishonor, protest, notice of protest and all other demands, protests and notices in connection with the execution, delivery, performance, collection and enforcement of this Note. Payee shall have full recourse against the undersigned, and shall not be required to proceed against the assets of the Maker in the event of default. Maker shall pay all costs of collection when incurred, including reasonable attorneys' fees, costs and expenses.

This Note is being delivered in, is intended to be performed in, shall be construed and interpreted in accordance with, and be governed by the internal laws of, the State of Minnesota, without regard to principles of conflict of laws.

BIODRAIN MEDICAL, INC.

Andrew P. Reding

By: /s/ Kevin R. Davidson

/s/ Andrew P. Reding

Title: President & CEO

2036 Blessing Court  
Mt. Pleasant, SC 29464

**CONVERTIBLE DEBENTURE**

699 Minnetonka Highlands Lane  
Orono, MN 55356-9728

\$1,000.00

January 30, 2007

**FOR VALUE RECEIVED**, the undersigned, "BioDrain Medical, Inc.," a Minnesota company ("**Maker**"), hereby promises to pay to the order of Thomas J. McGoldrick ("**Payee**"), at the address of Payee specified below, the principal sum of one thousand dollars (\$1, 000.00), in lawful money of the United States of America, together with interest thereon, at the rate set forth below.

**1. The principal of and interest upon this Note shall be due and payable as follows:**

- (a) This Note shall bear interest at a per annum rate of interest of 8.25% based upon a year of 365 days and actual days elapsed.
- (b) The entire unpaid principal balance of this Note and accrued interest hereunder shall be due and payable in full no later than July 31, 2007, the **Maturity Date**

**2. Convertibility terms:** The debenture is convertible to BioDrain common stock at \$1.00 per share. On price at next sale which ever is lower.

The undersigned may at any time prepay all or any portion of the principal or interest owing hereunder.

Maker hereby waives presentment, demand, notice of dishonor, protest, notice of protest and all other demands, protests and notices in connection with the execution, delivery, performance, collection and enforcement of this Note. Payee shall have full recourse against the undersigned, and shall not be required to proceed against the assets of the Maker in the event of default. Maker shall pay all costs of collection when incurred, including reasonable attorneys' fees, costs and expenses.

This Note is being delivered in, is intended to be performed in, shall be construed and interpreted in accordance with, and be governed by the internal laws of, the State of Minnesota, without regard to principles of conflict of laws.

BIODRAIN MEDICAL, INC.

Thomas J. McGoldrick

By: Gerald D. Bui



Title: CFO

19575 W. Chimo  
Wayzata, MN 55391

## CONVERTIBLE DEBENTURE

699 Minnetonka Highlands Lane  
Orono, MN 55356-9728

\$10,000.00

September 29, 2006

**FOR VALUE RECEIVED**, the undersigned, "BioDrain Medical, Inc.," a Minnesota company ("**Maker**"), hereby promises to pay to the order of Andcor Companies Inc.. ("**Payee**"), at the address of Payee specified below, the principal sum of Ten thousand dollars (\$10,000.00), in lawful money of the United States of America, together with interest thereon, at the rate set forth below.

**1. The principal of and interest upon this Note shall be due and payable as follows:**

- (a) This Note shall bear interest at a per annum rate of interest of 10.25% based upon a year of 365 days and actual days elapsed.
- (b) The entire unpaid principal balance of this Note and accrued interest hereunder shall be due and payable in full no later than "March 31, 2007" (the "**Maturity Date**")

**2. Convertibility and warrant terms:**

- (a) The debenture is convertible to BioDrain common stock at \$.90 per share or the price per share at which the next equity financing is completed, whichever is lower.
- (b) Maker hereby grants to Payee warrants to purchase 10,000 shares of BioDrain common stock at \$1.00 per share or the price per share at which the next equity financing is completed, whichever is lower. The exercise of such warrants is on a call basis for a period of five (5) years from the date of the debenture. Exercise must be in writing.

The undersigned may at any time prepay all or any portion of the principal or interest owing hereunder.

Maker hereby waives presentment, demand, notice of dishonor, protest, notice of protest and all other demands, protests and notices in connection with the execution, delivery, performance, collection and enforcement of this Note. Payee shall have full recourse against the undersigned, and shall not be required to proceed against the assets

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of the Maker in the event of default. Maker shall pay all costs of collection when incurred, including reasonable attorneys' fees, costs and expenses.

This Note is being delivered in, is intended to be performed in, shall be construed and interpreted in accordance with, and be governed by the internal laws of, the State of Minnesota, without regard to principles of conflict of laws.

BIODRAIN MEDICAL, INC.

ANDCOR COMPANIES, INC.

By:   
\_\_\_\_\_

By:   
\_\_\_\_\_

Title: CFO

Title: CFO

539 E. Lake Street  
Wayzata, MN 55391

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## CONVERTIBLE DEBENTURE

699 Minnetonka Highlands Lane  
Qrono, MN 55356-9728

\$50,000.00

March 1, 2007

**FOR VALUE RECEIVED**, the undersigned, "BioDrain Medical, Inc.," a Minnesota company ("**BioDrain**" or "**Maker**"), hereby promises to pay to the order of Carl Moore ("**Payee**"), at the address of Payee specified below, the principal sum of fifty thousand dollars (\$50,000.00), in lawful money of the United States of America, together with interest thereon, at the rate set forth below.

**1. The principal of and interest upon this Note shall be due and payable as follows:**

- (a) This Note shall bear interest at a per annum rate of interest of 12% based upon a year of 365 days and actual days elapsed.
- (b) Interest payments will be made on a semi-annual basis, with payment dates on the six months and one-year anniversaries of the effective date. Each semi-annual payment shall be in the amount of \$3,000.00 (one-half of the annual coupon rate). At Payee's discretion, any and all interest payments may be accrued and not paid, over the course of the Agreement. At conversion or redemption of the note, Payee shall have the option to receive any and all accrued interest in either cash or the accrued amount may be converted directly into BioDrain common stock, at the same conversion rate as the principle balance.
- (c) The entire unpaid principal balance of this Note and any unpaid accrued interest hereunder shall be due and payable in full no later than March 1, 2012, the **Maturity Date**.

**2. Convertibility terms:** The debenture is convertible in whole or in part to BioDrain common stock at a per share price equal to the price of the next completed funding following the execution of this debenture.

- (a) Conversion rights shall be solely and exclusively that of Payee and said rights shall be in place throughout the term of this Agreement. As conversion, may occur in whole or in part, Payee may exercise conversion rights more than one time during the course of this Agreement.
- (b) Payee may, at his sole discretion, put all or any part of the debenture back to Maker for payment at any time after Maker receives the \$500,000.00 funding following this Agreement, or within 90 days of the effective date of this Agreement, whichever comes first.

**3. Warrants:** Payee will receive warrants to purchase BioDrain common stock for up to twenty percent (20%) of the loan amount (or \$10,000,00) at a per share price equal to the price of the next completed funding following the execution of this debenture. The warrants shall have a five-year term from the effective date of this agreement.

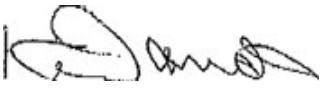
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Maker hereby waives presentment, demand, notice of dishonor, protest, notice of protest and all other demands, protests and notices in connection with the execution, delivery, performance, collection and enforcement of this Note. Payee shall have full recourse against the undersigned, and shall not be required to proceed against the assets of the Maker in the event of default. Maker shall pay all costs of collection when incurred, including reasonable attorneys' fees, costs and expenses.

This Note is being delivered in, is intended to be performed in, shall be construed and interpreted in accordance with, and he governed by the internal laws of, the State of Minnesota, without regard to principles of conflict of laws.

BIODRAIN MEDICAL, INC.

Carl Moore

By   
\_\_\_\_\_

  
\_\_\_\_\_

Title: President & CEO

PO Box 1348

Kennedale, TX 76060-1348

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## CONVERTIBLE DEBENTURE

699 Minnetonka Highlands Lane  
Orono, MN 55356-9728

\$50,000.00

March 1, 2007

**FOR VALUE RECEIVED**, the undersigned, "BioDrain Medical, Inc.," a Minnesota company ("**BioDrain**" or "**Maker**"), hereby promises to pay to the order of Roy Moore ("**Payee**"), at the address of Payee specified below, the principal sum of fifty thousand dollars (\$50,000.00), in lawful money of the United States of America, together with interest thereon, at the rate set forth below.

**1. The principal of and interest upon this Note shall be due and payable as follows:**

- (a) This Note shall bear interest at a per annum rate of interest of 12% based upon a year of 365 days and actual days elapsed.
- (b) Interest payments will be made on a semi-annual basis, with payment dates on the six months and one-year anniversaries of the effective date. Each semi-annual payment shall be in the amount of \$3,000.00 (one-half of the annual coupon rate). At Payee's discretion, any and all interest payments may be accrued and not paid, over the course of the Agreement. At conversion or redemption of the note, Payee shall have the option to receive any and all accrued interest in either cash or the accrued amount may be converted directly into BioDrain common stock, at the same conversion rate as the principle balance.
- (c) The entire unpaid principal balance of this Note and any unpaid accrued interest hereunder shall be due and payable in full no later than March 1, 2012, the **Maturity Date**.

**2. Convertibility terms:** The debenture is convertible in whole or in part to BioDrain common stock at a per share price equal to the price of the next completed funding following the execution of this debenture.

- (a) Conversion rights shall be solely and exclusively that of Payee and said rights shall be in place throughout the term of this Agreement. As conversion may occur in whole or in part, Payee may exercise conversion rights more than one time during the course of this Agreement.
- (b) Payee may, at his sole discretion, put all or any part of the debenture back to Maker for payment at any time after Maker receives the \$500,000.00 funding following this Agreement, or within 90 days of the effective date of this Agreement, whichever comes first.

**3. Warrants:** Payee will receive warrants to purchase BioDrain common stock for up to twenty percent (20%) of the loan amount (or \$10,000.00) at a per share price equal to the price of the next completed funding following the execution of this debenture. The warrants shall have a five-year term from the effective date of this agreement.

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Maker hereby waives presentment, demand, notice of dishonor, protest, notice of protest and all other demands, protests and notices in connection with the execution, delivery, performance, collection and enforcement of this Note. Payee shall have full recourse against the undersigned, and shall not be required to proceed against the assets of the Maker in the event of default. Maker shall pay all costs of collection when incurred, including reasonable attorneys' fees, costs and expenses.

This Note is being delivered in, is intended to be performed in, shall be construed and interpreted in accordance with, and be governed by the internal laws of, the State of Minnesota, without regard to principles of conflict of laws.

BIODRAIN MEDICAL, INC.

Roy Moore

By 



Title President & CEO

771 NE 36<sup>th</sup> Street  
Boca Raton, FL 33431

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THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

**BioDrain Medical, Inc.**

**MEDICAL ADVISORY BOARD WARRANT AGREEMENT**

This Advisory Board Warrant Agreement is made and entered as of the 31 day of August, 2005 (the Agreement Date”) by and between BioDrain Medical, Inc., a Minnesota corporation (“Company”) and Medical Advisory Board member Debbie Heitzman (the “Warrantee”) as consideration for Board membership..

1. **Warrant Grant.** The Company hereby grants to the Warrantee a warrant (the “Warrant”) to purchase 5,000 shares (“Warrant Shares”, with each being a “Warrant Share”) of its \$0.01 par value common stock (“Share”), under the terms and conditions set forth below.

2. **Nonstatutory Option.** The Warrant is granted to purchase up to the number of shares of authorized but unissued common stock of the Company specified in Section 1 (the “Shares”). The Warrant will expire, and all rights to exercise it will terminate on the earliest of: (a) the date provided below in Sections 8 and 9, and (b) the Expiration Date.

3. **Exercise Price.** The exercise price of each Warrant Share of the Company as of any exercise date is \$1.00 per Share.

4. **Period of Exercise.** The Warrant will expire at 5:00 p.m. on the fifth anniversary of the Agreement Date (“the Expiration Date”).

5. **Vesting of Options.** Warrantee will have the right to exercise the Warrant in accordance with the following schedule:

(a) The Shares subject to Warrant will vest in 90 days from the Agreement Date.

6. **Transferability.** The Warrant is not transferable except by will or the laws of descent and distribution and may be exercised during the lifetime of the Warrantee only by the Warrantee, and if exercised following the Warrantee’s death, by the Warrantee’s legal representative upon presenting evidence of authority to act on behalf of the Warrantee’s estate acceptable to the Company.

7. **Change in Control.** If the Company enters into a binding agreement during the time that Warrantee is a Medical Advisory Board member of the Company that results in a change in control (as defined in the following sentence), then 100% of the Shares will vest. For purposes of this Warrant Agreement, “change in control” means that:

(a) any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity or person, or any syndicate or group deemed to be a person under Section 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is or becomes the “beneficial owner” (as defined in Rule 13d-3 of the General Rules and Regulations under the Exchange Act), directly or indirectly, of securities of the Corporation representing fifty percent (50%) or more of the combined voting power of the Company’s then outstanding securities entitled to vote in the election of directors of the Company; or

(b) there occurs a reorganization, merger, consolidation or other corporate transaction involving the Company (“Transaction”), in each case, with respect to which the stockholders of the Company immediately prior to such Transaction do not, immediately after the Transaction, own more than fifty percent (50%) of the combined voting power of the Company or other corporation resulting from such Transaction; or

(c) all or substantially all of the assets of the Company are sold, liquidated or distributed.

**8. Warrant Lapse.** The Warrant will lapse and becomes unexercisable in full on the earliest of the following events:

(a) three (3) months following the Warrantee’s death, as provided below in Section 9;

(b) the date otherwise provided below in Section 9, unless the Board of Directors otherwise extends such period before the applicable expiration date.

**9. Medical Advisory Board Resignation.** If Warrantee ceases to be a Medical Advisory Board member for any reason other than that described in this Section 9, Warrantee will have the right, subject to the other provisions of this Agreement, to exercise the Warrant for up to ninety (90) days following the date of termination, but only to the extent that on the date of termination the Warrantee’s right to exercise such Warrant had vested, and at the end of such period the Warrant will expire, and all rights to exercise it will terminate.

(a) If Warrantee dies while a Medical Advisory Board member, or after ceasing to be a Medical Advisory Board member but during the period while he or she could have exercised an Warrant under the preceding sub-Sections, the Warrant granted to the Warrantee may be exercised, to the extent it has vested at the time of death at any time within ninety (90) days after the Warrantee’s death, by the executors or administrators of his or her estate or by any person or persons who acquire the Warrant by will or the laws of descent and distribution, but not beyond the otherwise applicable term of the Warrant.

**10. Adjustment in Capitalization.** If there is any change in the outstanding common stock of the Company by reason of a stock dividend or split, recapitalization, reclassification, or other similar capital change, the aggregate number of Warrant Shares subject to the Warrant will be appropriately adjusted by the Company, as directed by the Board of Directors of the Company whose determination is final and conclusive, except that fractional Shares will be rounded to the nearest whole Share. In any such case, the number and kind of Shares that are subject to the Warrant and the Warrant exercise price per Share will be proportionately adjusted without any change in the aggregate Warrant price to be paid upon exercise of the Warrant.

**11. Amendment, Modification and Termination of Agreement.** The Board of Directors of the Company may at any time terminate, and from time to time may amend or modify Agreement; provided, however, that no amendment, modification, or termination of this Agreement may in any manner adversely affect the Warrant without the consent of the Warrantee.

**12. Lock up Period.** The Warrantee understands that the Company at a future date may file a registration or offering statement (the “Registration Statement”) with the Securities and Exchange Commission to facilitate an initial public offering of its securities. The Warrantee agrees, for the benefit of the Company, that should such an initial public offering be made and should the managing underwriter of such offering require, the Warrantee will not, without the prior written consent of the Company and such underwriter, during the Lock Up Period as defined herein: (i) sell, transfer or otherwise dispose of, or agree to sell,

transfer or otherwise dispose of any Shares beneficially held by the Warrantee during the Lock Up Period; (ii) sell, transfer or otherwise dispose of, or agree to sell, transfer or otherwise dispose of any options, rights or warrants to purchase any Shares beneficially held by the Warrantee during the Lock Up Period; or (iii) sell or grant, or agree to sell or grant, options, rights or warrants with respect to any Shares. The foregoing does not prohibit gifts to donees or transfers by will or the laws of descent to heirs or beneficiaries provided that such donees, heirs and beneficiaries are bound by the restrictions set forth herein. The term "Lock Up Period" means the lesser of (a) 180 days or (b) the period during which Company officers and directors are restricted by the managing underwriter from effecting any sales or transfers of the Company's common stock. The Lock Up Period will commence on the effective of the Registration Statement.

### 13. Securities Matters.

(1) **Registration.** If the Company deems it necessary or desirable to register or qualify the Warrant or any Shares with respect to which the Warrant has been granted or exercised under the Securities Act of 1933, as amended, or any other applicable statute or regulation, the Warrantee will cooperate with the Company and take such action as is necessary to permit registration or qualification of the Warrant or the Shares. The foregoing notwithstanding, the Company has no obligation to register the Warrant or any Shares.

(2) **Investment Intent.** Unless the Company has determined that the following representation is unnecessary, each person exercising any portion of the Warrant will be required, as a condition to the issuance of Shares pursuant to exercise of the Warrant, to make a representation in writing (a) that he or she is acquiring the Shares for his or her own account for investment and not with a view to, or for sale in connection with, the distribution of any part thereof, (b) that before any transfer in connection with the resale of the Shares, he or she will obtain the written opinion of counsel for the Company, or other counsel acceptable to the Company, that the Shares may be transferred. The Company may also place a stop transfer order with its transfer agent with respect to the Shares and require that certificates representing the Shares contain legends reflecting the foregoing.

### 14. Miscellaneous.

(1) **Requirements of Law.** The granting of the Warrant and the issuance of Shares are subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(2) **Choice of Law and Venue.** This Agreement is made under and must be governed by the laws of the State of Minnesota, and each of the parties hereto consents to venue any suit or action under or with regard to this Agreement in an appropriate court with jurisdiction in Hennepin County, Minnesota.

(3) **Notices.** All notices, requests and other communications from either party to the other hereunder must be given in writing and will be deemed to have been duly given if personally delivered, or sent by first class, certified mail, return receipt requested, postage prepaid, to the party may at the address as provided below, or to such other address as such party may hereafter designate by written notice to the other party:

(a) If the Company, to the address of its then principal office; and

(b) If to the Warrantee, to the residence address last shown in the records of the Company, which as of the date of this Agreement is as follows:

Debbie Heitzman  
2325 Log Cabin Drive, Suite 108  
Smyrna, GA 30080

(4) **No obligation to Exercise.** The granting of the Warrant imposes no obligation upon the holder thereof to exercise the Warrant.

(5) **Amendments; Final Agreement.** This Agreement contains the complete and final understanding of the parties with respect to the subject matter hereof and supersedes all prior understanding and statements, written and oral. This Agreement may not be amended except in a written instrument signed by the party against whom enforcement is sought.

(6) **Headings.** Headings and captions used in this Agreement are for convenience and do not affect the meaning hereof.

15. **Share Issuance.** The Company will not be under any obligation to issue any Shares upon the exercise of this Warrant unless and until the Company has determined that:

(a) it and Warrantee have taken all actions required to register such Shares under the Securities Act, or to perfect an exemption from the registration requirements thereof;

(b) any applicable listing requirement of any stock exchange on which such Shares are listed has been satisfied; and

(c) all other applicable provisions of state and federal law have been satisfied.

16. **Tax Effect.** Warrantee acknowledges that the tax effect of the exercise of this Warrant and the sale of the underlying Shares is complicated, that Warrantee has consulted with his or her own professional advisor which respect to all tax matters relating to this Warrant and the exercise and sale of the Shares and has not relied on any assurances or representations of the Company as to such matters.

17. The Shares have not been registered and, therefore, they may not be sold, pledged, hypothecated, or otherwise transferred unless they are registered under the Securities Act of 1933, as amended, and applicable state securities laws or an exemption from such registration is available.

18. **Stock Legend.** A legend will be placed on any certificate evidencing the Shares in substantially the following form:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE STATE SECURITIES LAWS OF ANY STATE. WITHOUT SUCH REGISTRATION, SUCH SECURITIES MAY NOT BE SOLD, PLEDGED, HYPOTHECATED, OR OTHERWISE TRANSFERRED AT ANY TIME WHATSOEVER, EXCEPT UPON DELIVERY TO THE COMPANY OF AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED FOR SUCH TRANSFER AND/OR THE SUBMISSION TO THE COMPANY OF SUCH OTHER EVIDENCE AS MAY BE SATISFACTORY TO THE COMPANY TO THE EFFECT THAT ANY SUCH TRANSFER WILL NOT BE IN VIOLATION OF THE SECURITIES ACT OF 1933, AS AMENDED, AND/OR APPLICABLE STATE SECURITIES LAWS AND/OR ANY RULE OR REGULATION PROMULGATED THEREUNDER.

IN WITNESS WHEREOF, each of the parties hereto has executed this Stock Option Agreement, in the case of the Corporation by its duly authorized officer, as of the date and year written above.

**OPTIONEE**

**BIODRAIN MEDICAL, INC.,**  
a Minnesota corporation

By:

/s/ Debbie Heitzman

Debbie Heitzman

/s/ Lawrence W. Gadbow

Lawrence W. Gadbow  
President & CEO

Its:

4

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

**BioDrain Medical, Inc.**

**MEDICAL ADVISORY BOARD WARRANT AGREEMENT**

This Advisory Board Warrant Agreement is made and entered as of the 31 day of August, 2005 (the Agreement Date”) by and between BioDrain Medical, Inc., a Minnesota corporation (“Company”) and Medical Advisory Board member Mary Wolls Gorman (the “Warrantee”) as consideration for Board membership..

**1. Warrant Grant.** The Company hereby grants to the Warrantee a warrant (the “Warrant”) to purchase 5,000 shares (“Warrant Shares”, with each being a “Warrant Share”) of its \$0.01 par value common stock (“Share”), under the terms and conditions set forth below.

**2. Nonstatutory Option.** The Warrant is granted to purchase up to the number of shares of authorized but unissued common stock of the Company specified in Section 1 (the “Shares”). The Warrant will expire, end all rights to exercise it will terminate on the earliest of (a) the date provided below in Sections 8 and 9, and (b) the Expiration Date.

**3. Exercise Price.** The exercise price of each Warrant Share of the Company as of any exercise date is \$1.00 per Share.

**4. Period of Exercise.** The Warrant will expire at 5:00 p.m. on the fifth anniversary of the Agreement Date (“the Expiration Date”).

**5. Vesting of Options.** Warrantee will have the right to exercise the Warrant in accordance with the following schedule:

(a) The Shares subject to Warrant will vest in 90 days from the Agreement Date.

**6. Transferability.** The Warrant is not transferable except by will or the laws of descent and distribution and may be exercised during the lifetime of the Warrantee only by the Warrantee, and if exercised following the Warrantee’s death, by the Warrantee’s legal representative upon presenting evidence of authority to act on behalf of the Warrantee’s estate acceptable to the Company.

**7. Change in Control.** If the Company enters into a binding agreement during the time that Warrantee is a Medical Advisory Board member of the Company that results in a change in control (as defined in the following sentence), then 100% of the Shares will vest. For purposes of this Warrant Agreement, “change in control” means that:

(a) any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity or person, or any syndicate or group deemed to be a person under Section 14(d)(2) of the Securities Exchange Act of 1994, as amended (the “Exchange Act”), is or becomes the “beneficial owner” (as defined in Rule 13d-3 of the General Rules and Regulations under the Exchange Act), directly or indirectly, of securities of the Corporation representing fifty percent (50%) or more of the combined voting power of the Company’s then outstanding securities entitled to vote in the election of directors of the Company; or

(b) there occurs a reorganization, merger, consolidation or other corporate transaction involving the company ("Transaction"), in each case, with respect to which the stockholders of the company immediately prior to such Transaction do not, immediately after the Transaction, own more than fifty percent (50%) of the combined voting power of the company or other corporation resulting from such Transaction; or

(c) all or substantially all of the assets of the Company are sold, liquidated or distributed.

**8. Warrant Lapse.** The Warrant will lapse and becomes unexercisable in full on the earliest of the following events:

(a) three (3) months following the Warrantee's death, as provided below in Section 9;

(b) the date otherwise provided below in Section 9, unless the Board of Directors otherwise extends such period before the applicable expiration date.

**9. Medical Advisory Board Resignation.** If Warrantee ceases to be a Medical Advisory Board member for any reason other than that described in this Section 9, Warrantee will have the right, subject to the other provisions of this Agreement, to exercise the Warrant for up to ninety (90) days following the date of termination, but only to the extent that on the date of termination the Warrantee's right to exercise such Warrant had vested, and at the end of such period the Warrant will expire, and all rights to exercise it will terminate.

(a) If warrantee dies while a Medical Advisory Board member, or after ceasing to be a Medical Advisory Board member but during the period while he or she could have exercised an Warrant under the preceding and Sections, the Warrant granted to the Warrantee may be exercised, to the extent it has vested at the time of death at any time Within ninety (90) days after the Warrantee's death, by the executors or administrations of his or her estate or by any person or persons who acquire the warrant by will or the laws of descent and distribution, but not beyond the otherwise applicable term of the Warrant.

**10. Adjustment in Capitalization.** If there is any change in the outstanding common stock of the company by reason of a stock dividend or split, recapitalization, reclassification, or other similar capital change, the aggregate number of Warrant Shares subject to the Warrant will be appropriately adjusted by the company, as directed by the Board of Directors of the Company whose determination is final and conclusive, except that fractional shares will be rounded to the nearest whole share. In any such case, the number and kind of Shares that are subject to the Warrant and the Warrant exercise price per Share will be proportionately Adjusted without any change in the aggregate Warrant price to be paid upon exercise of the Warrant.

**11. Amendment, Modification and Termination of Agreement.** The Board of Directors of the Company may at any time terminate, and from time to time may amend or modify Agreement; provided, however, that no amendment, modification, or termination of this Agreement may in any manner adversely affect the Warrant without the consent of the Warrantee.

**12. Lock up period.** The Warrantee understands that the Company at a future date may file a registration or offering statement (the "Registration Statement") with the Securities and Exchange Commission to facilitate an initial public offering of its securities. The Warrantee agrees, for the benefit of the Company, that should such an initial public offering be made and should the managing underwriter of such offering require, the Warrantee will not, without the prior written consent of the Company and such underwriter, during the Lock Up Period as defined herein: (i) sell, transfer or otherwise dispose of, or agree to sell,

transfer or otherwise dispose of any Shares beneficially held by the Warrantee during the Lock Up Period: (ii) sell, transfer or otherwise dispose of, or agree to sell, transfer or otherwise dispose of any options, rights or warrants to purchase any Shares beneficially held by the Warrantee during the Lock Up Period; or (iii) sell or grant, or agree to sell or grant, options, rights or warrants with respect to any Shares. The foregoing does not prohibit gifts to donees or transfers by will or the laws of descent to heirs or beneficiaries provided that such donees, heirs and beneficiaries are bound by the restrictions set forth herein. The term "Look Up Period" means the lesser of (a) 180 days or (b) the period during which Company officers and directors are restricted by the managing underwriter from effecting any sales or transfers of the Company's common stock. The Lock Up Period will commence on the effective of the Registration Statement.

### 13. Securities Matters.

(1) **Registration.** If the Company deems it necessary or desirable to register or qualify the Warrant or any Shares with respect to which the Warrant has been granted or exercised under the Securities Act of 1933, as amended, or any other applicable statute, or regulation, the Warrantee will cooperate with the Company and take such action as is necessary to permit registration or qualification of the Warrant or the Shares. The foregoing notwithstanding the Company has no obligation to register the Warrant or any Shares.

(2) **Investment Intent.** Unless the Company has determined that the following representation is unnecessary, each person exercising any portion of the Warrant will be required, as a condition to the issuance of Shares pursuant to exercise of the Warrant, to make a representation in writing (a) that he or she is acquiring the Shares for his or her own account for investment and not with a view to, or for sale in connection with, the distribution of any part thereof, (b) that before any transfer in connection with the resale of the Shares, he or she will obtain the written opinion of counsel for the Company, or other counsel acceptable to the Company, that the Shares may be transferred. The Company may also place a stop transfer order with its transfer agent with respect to the Shares and require that certificates representing the Shares contain legends reflecting the foregoing.

### 14. Miscellaneous.

(1) **Requirements of Law.** The granting of the Warrant and the issuance of Shares are subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(2) **Choice of Law and Venue.** This Agreement is made under and must be governed by the laws of the State of Minnesota, and each of the parties hereto consents to venue any suit or action under or with regard to this Agreement in an appropriate court with jurisdiction in Hennepin County, Minnesota.

(3) **Notices.** All notices, requests and other communications from either party to the other hereunder must be given in writing and will be deemed to have been duly given if personally delivered, or sent by first class, certified mail, return receipt requested, postage prepaid, to the party may at the address as provided below, or to such other address as such party may hereafter designate by written notice to the other party:

(a) If the Company, to the address of its then principal office; and

(b) If to the Warrantee, to the residence address last shown on the records of the Company, which as of the date of this Agreement it as follows:

Mary Wells Gorman  
5890 Boulder Bridge Lane  
Greenwood, MN 55331

(4) **No obligation to Exercise.** The granting of the Warrant imposes no obligation upon the holder thereof to exercise the Warrant.



(5) **Amendments; Final Agreement.** This Agreement contains the complete and final understanding of the parties with respect to the subject matter hereof and supersedes all prior understanding and statements, written and oral. This Agreement may not be amended except to a written instrument signed by the party against whom enforcement is sought.

(6) **Headings.** Headings and captions used in this Agreement are for convenience and do not effect the meaning hereof.

15. **Shares Issuance.** The company will not be under any obligation to issue any shares upon the exercise of this Warrant unless and until the Company determined that:

(a) it and Warrantee have taken all actions required to register such Shares under the Securities Act, or to perfect an exemption them the registration requirements thereof;

(b) any applicable listing requirement of any stock exchange on which such Shares are listed has been satisfied and

(c) all other applicable provisions of state and federal law have been satisfied.

16. **Tax Effect.** Warrantee acknowledges that the tax effect of the exercise of this Warrant and the sale of the underlying Shares is complicated, that Warrantee has consulted with his or her own professional advisor which respect to all tax matters relating to this Warrant and the exercise and sale of the Shares and has not relied on any assurances or registrations of the Company as to such matters.

17. The Shares have not been registered and, therefore, they may not be sold, pledged, hypothecated, or otherwise transferred unless they are registered under the Securities Act of 1933, as amended and applicable state securities laws or an exemption from such registration is available.

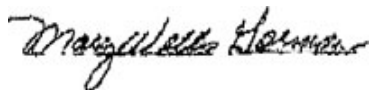
18. **Stock Legend.** A legend will be placed on any certificate evidencing the Shares in substantially the following form:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE STATE SECURITIES LAWS OF ANY STATE WITHOUT SUCH REGISTRATION. SUCH SECURITIES MAY NOT BE SOLD, PLEDGED, HYPOTHECATED, OR OTHERWISE TRANSFERRED AT ANY TIME WHATSOEVER EXCEPT UPON DELIVERY TO THE COMPANY OF AN OPINION OF COUNCEL SATISFACTORY TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED FOR SUCH TRANSFER AND/OR THE SUBMISSION TO THE COMPANY OF SUCH OTHER EVIDENCE AS MAY BE SATISFACTORY TO THE COMPANY TO THE EFFECT THAT ANY SUCH TRANSFER WILL NOT BE IN VIOLATION OF THE SECURITIES ACT OF 1933 AS AMENDED, AND/OR APPLICABLE STATE SECURITIES LAWS AND/OR ANY RULE OR REGULATION PROMULGATED THEREUNDER.

IN WITNESS WHEREOF, such of the parties hereto has executed this Stock Option Agreement, in the case of the Corporation by its duly authorized, officer, at of the date and year within above.

OPTIONAL

BIODRAIN MEDICAL, INC.,  
a Minnesota corporation



By:



Mary Wells Gormon

Lawrence W. Gadbow  
President & CEO

Its:

OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

**BioDrain Medical, Inc.**

**MEDICAL ADVISORY BOARD WARRANT AGREEMENT**

This Advisory Board Warrant Agreement is made and entered as of the 31 day of August, 2005 (the Agreement Date”) by and between BioDrain Medical, Inc., a Minnesota corporation (“Company”) and Medical Advisory Board member David D. Feroe (the “Warrantee”) as consideration for Board membership..

1. **Warrant Grant.** The Company hereby grants to the Warrantee a warrant (the “Warrant”) to purchase 5,000 shares (“Warrant Shares”, with each being a “Warrant Share”) of its \$0.01 par value common stock (“Share”), under the terms and conditions set forth below.
2. **Nonstatutory Option.** The Warrant is granted to purchase up to the number of shares of authorized but unissued common stock of the Company specified in Section 1 (the “Shares”). The Warrant will expire, and all rights to exercise it will terminate on the earliest of: (a) the date provided below in Sections 8 and 9, and (b) the Expiration Date.
3. **Exercise Price.** The exercise price of each Warrant Share of the Company as of any exercise date is \$1.00 per Share.
4. **Period of Exercise.** The Warrant will expire at 5:00 p.m. on the fifth anniversary of the Agreement Date (“the Expiration Date”).
5. **Vesting of Options.** Warrantee will have the right to exercise the Warrant in accordance with the following schedule:
  - (a) The Shares subject to Warrant will vest in 90 days from the Agreement Date.
6. **Transferability.** The Warrant is not transferable except by will or the laws of descent and distribution and may be exercised during the lifetime of the Warrantee only by the Warrantee, and if exercised following the Warrantee’s death, by the Warrantee’s legal representative upon presenting evidence of authority to act on behalf of the Warrantee’s estate acceptable to the Company.
7. **Change in Control.** If the Company enters into a binding agreement during the time that Warrantee is a Medical Advisory Board member of the Company that results in a change in control (as defined in the following sentence), then 100% of the Shares will vest. For purposes of this Warrant Agreement, “change in control” means that:
  - (a) any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity or person, or any syndicate or group deemed to be a person under Section 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is or becomes the “beneficial owner” (as defined in Rule 13d-3 of the General Rules and Regulations under the Exchange Act), directly or indirectly, of securities of the Corporation representing fifty percent (50%) or more of the combined voting power of the Company’s then outstanding securities entitled to vote in the election of directors of the Company; or

(b) there occurs a reorganization, merger, consolidation or other corporate transaction involving the Company (“Transaction”), in each case, with respect to which the stockholders of the Company immediately prior to such Transaction do not, immediately after the Transaction, own more than fifty percent (50%) of the combined voting power of the Company or other corporation resulting from such Transaction; or

(c) all or substantially all of the assets of the Company are sold, liquidated or distributed.

**8. Warrant Lapse.** The Warrant will lapse and becomes unexercisable in full on the earliest of the following events:

(a) three (3) months following the Warrantee’s death, as provided below in Section 9;

(b) the date otherwise provided below in Section 9, unless the Board of Directors otherwise extends such period before the applicable expiration date.

**9. Medical Advisory Board Resignation.** If Warrantee ceases to be a Medical Advisory Board member for any reason other than that described in this Section 9, Warrantee will have the right, subject to the other provisions of this Agreement, to exercise the Warrant for up to ninety (90) days following the date of termination, but only to the extent that on the date of termination the Warrantee’s right to exercise such Warrant had vested, and at the end of such period the Warrant will expire, and all rights to exercise it will terminate.

(a) If Warrantee dies while a Medical Advisory Board member, or after ceasing to be a Medical Advisory Board member but during the period while he or she could have exercised an Warrant under the preceding sub-Sections, the Warrant granted to the Warrantee may be exercised, to the extent it has vested at the time of death at any time within ninety (90) days after the Warrantee’s death, by the executors or administrators of his or her estate or by any person or persons who acquire the Warrant by will or the laws of descent and distribution, but not beyond the otherwise applicable term of the Warrant.

**10. Adjustment in Capitalization.** If there is any change in the outstanding common stock of the Company by reason of a stock dividend or split, recapitalization, reclassification, or other similar capital change, the aggregate number of Warrant Shares subject to the Warrant will be appropriately adjusted by the Company, as directed by the Board of Directors of the Company whose determination is final and conclusive, except that fractional Shares will be rounded to the nearest whole Share. In any such case, the number and kind of Shares that are subject to the Warrant and the Warrant exercise price per Share will be proportionately adjusted without any change in the aggregate Warrant price to be paid upon exercise of the Warrant.

**11. Amendment, Modification and Termination of Agreement.** The Board of Directors of the Company may at any time terminate, and from time to time may amend or modify Agreement; provided, however, that no amendment, modification, or termination of this Agreement may in any manner adversely affect the Warrant without the consent of the Warrantee.

**12. Lock up Period.** The Warrantee understands that the Company at a future date may file a registration or offering statement (the “Registration Statement”) with the Securities and Exchange Commission to facilitate an initial public offering of its securities. The Warrantee agrees, for the benefit of the Company, that should such an initial public offering be made and should the managing underwriter of such offering require, the Warrantee will not, without the prior written consent of the Company and such underwriter, during the Lock Up Period as defined herein: (i) sell, transfer or otherwise dispose of, or agree to sell, transfer or otherwise dispose of any Shares beneficially held by the Warrantee during the Lock Up Period;

(ii) sell, transfer or otherwise dispose of, or agree to sell, transfer or otherwise dispose of any options, rights or warrants to purchase any Shares beneficially held by the Warrantee during the Lock Up Period; or (iii) sell or grant, or agree to sell or grant, options, rights or warrants with respect to any Shares. The foregoing does not prohibit gifts to donees or transfers by will or the laws of descent to heirs or beneficiaries provided that such donees, heirs and beneficiaries are bound by the restrictions set forth herein. The term "Lock Up Period" means the lesser of (a) 180 days or (b) the period during which Company officers and directors are restricted by the managing underwriter from effecting any sales or transfers of the Company's common stock. The Lock Up Period will commence on the effective of the Registration Statement.

### 13. Securities Matters.

(1) **Registration.** If the Company deems it necessary or desirable to register or qualify the Warrant or any Shares with respect to which the Warrant has been granted or exercised under the Securities Act of 1933, as amended, or any other applicable statute or regulation, the Warrantee will cooperate with the Company and take such action as is necessary to permit registration or qualification of the Warrant or the Shares. The foregoing notwithstanding, the Company has no obligation to register the Warrant or any Shares.

(2) **Investment Intent.** Unless the Company has determined that the following representation is unnecessary, each person exercising any portion of the Warrant will be required, as a condition to the issuance of Shares pursuant to exercise of the Warrant, to make a representation in writing (a) that he or she is acquiring the Shares for his or her own account for investment and not with a view to, or for sale in connection with, the distribution of any part thereof, (b) that before any transfer in connection with the resale of the Shares, he or she will obtain the written opinion of counsel for the Company, or other counsel acceptable to the Company, that the Shares may be transferred. The Company may also place a stop transfer order with its transfer agent with respect to the Shares and require that certificates representing the Shares contain legends reflecting the foregoing.

### 14. Miscellaneous.

(1) **Requirements of Law.** The granting of the Warrant and the issuance of Shares are subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(2) **Choice of Law and Venue.** This Agreement is made under and must be governed by the laws of the State of Minnesota, and each of the parties hereto consents to venue any suit or action under or with regard to this Agreement in an appropriate court with jurisdiction in Hennepin County, Minnesota.

(3) **Notices.** All notices, requests and other communications from either party to the other hereunder must be given in writing and will be deemed to have been duly given if personally delivered, or sent by first class, certified mail, return receipt requested, postage prepaid, to the party may at the address as provided below, or to such other address as such party may hereafter designate by written notice to the other party:

(a) If the Company, to the address of its then principal office; and

(b) If to the Warrantee, to the residence address last shown in the records of the Company, which as of the date of this Agreement is as follows:

David Feroe  
5140 Aldrich Ave So  
Minneapolis, MN 55419

(4) **No obligation to Exercise.** The granting of the Warrant imposes no obligation upon the holder thereof to exercise the Warrant.

(5) **Amendments; Final Agreement.** This Agreement contains the complete and final understanding of the parties with respect to the subject matter hereof and supersedes all prior understanding and statements, written and oral. This Agreement may not be amended except in a written instrument signed by the party against whom enforcement is sought.

(6) **Headings.** Headings and captions used in this Agreement are for convenience and do not affect the meaning hereof.

15. **Share Issuance.** The Company will not be under any obligation to issue any Shares upon the exercise of this Warrant unless and until the Company has determined that:

(a) it and Warrantee have taken all actions required to register such Shares under the Securities Act, or to perfect an exemption from the registration requirements thereof;

(b) any applicable listing requirement of any stock exchange on which such Shares are listed has been satisfied; and

(c) all other applicable provisions of state and federal law have been satisfied.

16. **Tax Effect.** Warrantee acknowledges that the tax effect of the exercise of this Warrant and the sale of the underlying Shares is complicated, that Warrantee has consulted with his or her own professional advisor which respect to all tax matters relating to this Warrant and the exercise and sale of the Shares and has not relied on any assurances or representations of the Company as to such matters.

17. The Shares have not been registered and, therefore, they may not be sold, pledged, hypothecated, or otherwise transferred unless they are registered under the Securities Act of 1933, as amended, and applicable state securities laws or an exemption from such registration is available.

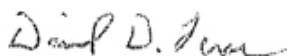
18. **Stock Legend.** A legend will be placed on any certificate evidencing the Shares in substantially the following form:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE STATE SECURITIES LAWS OF ANY STATE. WITHOUT SUCH REGISTRATION, SUCH SECURITIES MAY NOT BE SOLD, PLEDGED, HYPOTHECATED, OR OTHERWISE TRANSFERRED AT ANY TIME WHATSOEVER, EXCEPT UPON DELIVERY TO THE COMPANY OF AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED FOR SUCH TRANSFER AND/OR THE SUBMISSION TO THE COMPANY OF SUCH OTHER EVIDENCE AS MAY BE SATISFACTORY TO THE COMPANY TO THE EFFECT THAT ANY SUCH TRANSFER WILL NOT BE IN VIOLATION OF THE SECURITIES ACT OF 1933, AS AMENDED, AND/OR APPLICABLE STATE SECURITIES LAWS AND/OR ANY RULE OR REGULATION PROMULGATED THEREUNDER.

IN WITNESS WHEREOF, each of the parties hereto has executed this Warrant Agreement, in the case of the Corporation by its duly authorized officer, as of the date and year written above.

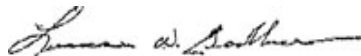
**OPTIONEE**

**BIODRAIN MEDICAL, Inc.,**  
a Minnesota corporation



David D. Feroe

By:



Its:

Lawrence W. Gadbow  
President & CEO

October 11, 2007

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

**BioDrain Medical, Inc.**

**MEDICAL ADVISORY BOARD WARRANT AGREEMENT**

This Advisory Board Warrant Agreement is made and entered as of the 12<sup>th</sup> day of June, 2006 (the Agreement Date) by and between BioDrain Medical, Inc., a Minnesota corporation ("Company") and Medical Advisory Board member Dr. Arnold S. Leonard (the "Warrantee") as consideration for Board membership..

1. **Warrant Grant.** The Company hereby grants to the Warrantee a warrant (the "Warrant") to purchase 60,000 shares ("Warrant Shares", with each being a "Warrant Share") of its \$0.01 par value common stock ("Share"), under the terms and conditions set forth below. To reduce dilution, upon reaching 2,000,000 shares the Company will grant a second warrant to purchase an additional 60,000 shares at the same rate.
2. **Nonstatutory Option.** The Warrant is granted to purchase up to the number of shares of authorized but unissued common stock of the Company specified in Section 1 (the "Shares"). The Warrant will expire, and all rights to exercise it will terminate on the earliest of: (a) the date provided below in Sections 8 and 9, and (b) the Expiration Date.
3. **Exercise Price.** The exercise price of each Warrant Share of the Company as of any exercise date is \$.01 per Share.
4. **Period of Exercise.** The Warrant will expire at 5:00 p.m. on the seventh anniversary of the Agreement Date ("the Expiration Date").
5. **Vesting of Options.** Warrantee will have the right to exercise the Warrant in accordance with the following schedule:
  - (a) The Shares subject to Warrant will vest immediately on Agreement Date.
6. **Transferability.** The Warrant is not transferable except by will or the laws of descent and distribution and may be exercised during the lifetime of the Warrantee only by the Warrantee, and if exercised following the Warrantee's death, by the Warrantee's legal representative upon presenting evidence of authority to act on behalf of the Warrantee's estate acceptable to the Company.
7. **Change in Control.** If the Company enters into a binding agreement during the time that Warrantee is a Medical Advisory Board member of the Company that results in a change in control (as defined in the following sentence), then 100% of the Shares will vest. For purposes of this Warrant Agreement, "change in control" means that:
  - (a) any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity or person, or any syndicate or group deemed to be a person under Section 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is or becomes the "beneficial owner" (as defined in Rule 13d-3 of the General Rules and Regulations under the Exchange Act), directly or indirectly, of securities of the Corporation representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities entitled to vote in the election of directors of the Company; or

(b) there occurs a reorganization, merger, consolidation or other corporate transaction involving the Company (“Transaction”), in each case, with respect to which the stockholders of the Company immediately prior to such Transaction do not, immediately after the Transaction, own more than fifty percent (50%) of the combined voting power of the Company or other corporation resulting from such Transaction; or

(c) all or substantially all of the assets of the Company are sold, liquidated or distributed.

**8. Warrant Lapse.** The Warrant will lapse and becomes unexercisable in full on the earliest of the following events:

(a) three (3) months following the Warrantee’s death, as provided below in Section 9;

(b) the date otherwise provided below in Section 9, unless the Board of Directors otherwise extends such period before the applicable expiration date.

**9. Medical Advisory Board Resignation.** If Warrantee ceases to be a Medical Advisory Board member for any reason other than that described in this Section 9, Warrantee will have the right, subject to the other provisions of this Agreement, to exercise the Warrant for up to ninety (90) days following the date of termination, but only to the extent that on the date of termination the Warrantee’s right to exercise such Warrant had vested, and at the end of such period the Warrant will expire, and all rights to exercise it will terminate.

(a) If Warrantee dies while a Medical Advisory Board member, or after ceasing to be a Medical Advisory Board member but during the period while he or she could have exercised an Warrant under the preceding sub-Sections, the Warrant granted to the Warrantee may be exercised, to the extent it has vested at the time of death at any time within ninety (90) days after the Warrantee’s death, by the executors or administrators of his or her estate or by any person or persons who acquire the Warrant by will or the laws of descent and distribution, but not beyond the otherwise applicable term of the Warrant.

**10. Adjustment in Capitalization.** If there is any change in the outstanding common stock of the Company by reason of a stock dividend or split, recapitalization, reclassification, or other similar capital change, the aggregate number of Warrant Shares subject to the Warrant will be appropriately adjusted by the Company, as directed by the Board of Directors of the Company whose determination is final and conclusive, except that fractional Shares will be rounded to the nearest whole Share. In any such case, the number and kind of Shares that are subject to the Warrant and the Warrant exercise price per Share will be proportionately adjusted without any change in the aggregate Warrant price to be paid upon exercise of the Warrant.

**11. Amendment, Modification and Termination of Agreement.** The Board of Directors of the Company may at any time terminate, and from time to time may amend or modify Agreement; provided, however, that no amendment, modification, or termination of this Agreement may in any manner adversely affect the Warrant without the consent of the Warrantee.

**12. Lock up Period.** The Warrantee understands that the Company at a future date may file a registration or offering statement (the “Registration Statement”) with the Securities and Exchange Commission to facilitate an initial public offering of its securities. The Warrantee agrees, for the benefit of the Company, that should such an initial public offering be made and should the managing underwriter of such offering require, the Warrantee will not, without the prior written consent of the Company and such underwriter, during the Lock Up Period as defined herein: (i) sell, transfer or otherwise dispose of, or agree to sell, transfer or otherwise dispose of any Shares beneficially held by the Warrantee during the Lock Up Period;

(ii) sell, transfer or otherwise dispose of, or agree to sell, transfer or otherwise dispose of any options, rights or warrants to purchase any Shares beneficially held by the Warrantee during the Lock Up Period; or (iii) sell or grant, or agree to sell or grant, options, rights or warrants with respect to any Shares. The foregoing does not prohibit gifts to donees or transfers by will or the laws of descent to heirs or beneficiaries provided that such donees, heirs and beneficiaries are bound by the restrictions set forth herein. The term "Lock Up Period" means the lesser of (a) 180 days or (b) the period during which Company officers and directors are restricted by the managing underwriter from effecting any sales or transfers of the Company's common stock. The Lock Up Period will commence on the effective of the Registration Statement.

### 13. Securities Matters.

(1) **Registration.** If the Company deems it necessary or desirable to register or qualify the Warrant or any Shares with respect to which the Warrant has been granted or exercised under the Securities Act of 1933, as amended, or any other applicable statute or regulation, the Warrantee will cooperate with the Company and take such action as is necessary to permit registration or qualification of the Warrant or the Shares. The foregoing notwithstanding, the Company has no obligation to register the Warrant or any Shares.

(2) **Investment Intent.** Unless the Company has determined that the following representation is unnecessary, each person exercising any portion of the Warrant will be required, as a condition to the issuance of Shares pursuant to exercise of the Warrant, to make a representation in writing (a) that he or she is acquiring the Shares for his or her own account for investment and not with a view to, or for sale in connection with, the distribution of any part thereof, (b) that before any transfer in connection with the resale of the Shares, he or she will obtain the written opinion of counsel for the Company, or other counsel acceptable to the Company, that the Shares may be transferred. The Company may also place a stop transfer order with its transfer agent with respect to the Shares and require that certificates representing the Shares contain legends reflecting the foregoing.

### 14. Miscellaneous.

(1) **Requirements of Law.** The granting of the Warrant and the issuance of Shares are subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(2) **Choice of Law and Venue.** This Agreement is made under and must be governed by the laws of the State of Minnesota, and each of the parties hereto consents to venue any suit or action under or with regard to this Agreement in an appropriate court with jurisdiction in Hennepin County, Minnesota.

(3) **Notices.** All notices, requests and other communications from either party to the other hereunder must be given in writing and will be deemed to have been duly given if personally delivered, or sent by first class, certified mail, return receipt requested, postage prepaid, to the party may at the address as provided below, or to such other address as such party may hereafter designate by written notice to the other party:

(a) If the Company, to the address of its then principal office; and

(b) If to the Warrantee, to the office address last shown in the records of the Company, which as of the date of this Agreement is as follows:

Dr. Arnold Leonard  
Riverside Professional Bldg.  
606 24th Avenue South, Suite 818  
Minneapolis, MN 55454-1419

(4) **No obligation to Exercise.** The granting of the Warrant imposes no obligation upon the holder thereof to exercise the Warrant.





THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

**BioDrain Medical, Inc.**

**MEDICAL ADVISORY BOARD WARRANT AGREEMENT**

This Advisory Board Warrant Agreement is made and entered as of the 7th day of December, 2006 (the Agreement Date”) by and between BioDrain Medical, Inc., a Minnesota corporation (“Company”) and Medical Advisory Board member Karen A. Ventura (the “Warrantee”) as consideration for Board membership.

1. **Warrant Grant.** The Company hereby grants to the Warrantee a warrant (the “Warrant”) to purchase 5,000 shares (“Warrant Shares”, with each being a “Warrant Share”) of its \$0.01 par value common stock (“Share”), under the terms and conditions set forth below.
2. **Nonstatutory Option.** The Warrant is granted to purchase up to the number of shares of authorized but unissued common stock of the Company specified in Section 1 (the “Shares”). The Warrant will expire, and all rights to exercise it will terminate on the earliest of: (a) the date provided below in Sections 8 and 9, and (b) the Expiration Date.
3. **Exercise Price.** The exercise price of each Warrant Share of the Company as of any exercise date is \$1.00 per Share.
4. **Period of Exercise.** The Warrant will expire at 5:00 p.m. on the fifth anniversary of the Agreement Date (“the Expiration Date”).
5. **Vesting of Options.** Warrantee will have the right to exercise the Warrant in accordance with the following schedule:
  - (a) The Shares subject to Warrant will vest in 90 days from the Agreement Date.
6. **Transferability.** The Warrant is not transferable except by will or the laws of descent and distribution and may be exercised during the lifetime of the Warrantee only by the Warrantee, and if exercised following the Warrantee’s death, by the Warrantee’s legal representative upon presenting evidence of authority to act on behalf of the Warrantee’s estate acceptable to the Company.
7. **Change in Control.** If the Company enters into a binding agreement during the time that Warrantee is a Medical Advisory Board member of the Company that results in a change in control (as defined in the following sentence), then 100% of the Shares will vest. For purposes of this Warrant Agreement, “change in control” means that:
  - (a) any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity or person, or any syndicate or group deemed to be a person under Section 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is or becomes the “beneficial owner” (as defined in Rule 13d-3 of the General Rules and Regulations under the Exchange Act), directly or indirectly, of securities of the Corporation representing fifty percent (50%) or more of the combined voting power of the Company’s then outstanding securities entitled to vote in the election of directors of the Company; or
  - (b) there occurs a reorganization, merger, consolidation or other corporate transaction involving the Company (“Transaction”), in each case, with respect to which the stockholders of the Company immediately prior to such Transaction do not, immediately after the Transaction, own more than fifty

percent (50%) of the combined voting power of the Company or other corporation resulting from such Transaction; or

(c) all or substantially all of the assets of the Company are sold, liquidated or distributed.

**8. Warrant Lapse.** The Warrant will lapse and becomes unexercisable in full on the earliest of the following events:

(a) three (3) months following the Warrantee's death, as provided below in Section 9;

(b) the date otherwise provided below in Section 9, unless the Board of Directors otherwise extends such period before the applicable expiration date.

**9. Medical Advisory Board Resignation.** If Warrantee ceases to be a Medical Advisory Board member for any reason other than that described in this Section 9, Warrantee will have the right, subject to the other provisions of this Agreement, to exercise the Warrant for up to ninety (90) days following the date of termination, but only to the extent that on the date of termination the Warrantee's right to exercise such Warrant had vested, and at the end of such period the Warrant will expire, and all rights to exercise it will terminate.

(a) If Warrantee dies while a Medical Advisory Board member, or after ceasing to be a Medical Advisory Board member but during the period while he or she could have exercised an Warrant under the preceding sub-Sections, the Warrant granted to the Warrantee may be exercised, to the extent it has vested at the time of death at any time within ninety (90) days after the Warrantee's death, by the executors or administrators of his or her estate or by any person or persons who acquire the Warrant by will or the laws of descent and distribution, but not beyond the otherwise applicable term of the Warrant.

**10. Adjustment in Capitalization.** If there is any change in the outstanding common stock of the Company by reason of a stock dividend or split, recapitalization, reclassification, or other similar capital change, the aggregate number of Warrant Shares subject to the Warrant will be appropriately adjusted by the Company, as directed by the Board of Directors of the Company whose determination is final and conclusive, except that fractional Shares will be rounded to the nearest whole Share. In any such case, the number and kind of Shares that are subject to the Warrant and the Warrant exercise price per Share will be proportionately adjusted without any change in the aggregate Warrant price to be paid upon exercise of the Warrant.

**11. Amendment, Modification and Termination of Agreement.** The Board of Directors of the Company may at any time terminate, and from time to time may amend or modify Agreement; provided, however, that no amendment, modification, or termination of this Agreement may in any manner adversely affect the Warrant without the consent of the Warrantee.

**12. Lock up Period.** The Warrantee understands that the Company at a future date may file a registration or offering statement (the "Registration Statement") with the Securities and Exchange Commission to facilitate an initial public offering of its securities. The Warrantee agrees, for the benefit of the Company, that should such an initial public offering be made and should the managing underwriter of such offering require, the Warrantee will not, without the prior written consent of the Company and such underwriter, during the Lock Up Period as defined herein: (i) sell, transfer or otherwise dispose of, or agree to sell, transfer or otherwise dispose of any Shares beneficially held by the Warrantee during the Lock Up Period; (ii) sell, transfer or otherwise dispose of, or agree to sell, transfer or otherwise dispose of any options, rights or warrants to purchase any Shares beneficially held by the Warrantee during the Lock Up Period; or (iii) sell or grant, or agree to sell or grant, options, rights or warrants with respect to any Shares. The foregoing does not prohibit gifts to donees or transfers by will or the laws of descent to heirs or beneficiaries provided that such donees, heirs and beneficiaries are bound by the restrictions set forth herein. The term "Lock Up Period" means the lesser of (a) 180 days or (b) the period during which Company officers and directors are restricted by the managing underwriter from effecting any sales or transfers of the Company's common stock. The Lock Up Period will commence on the effective of the Registration Statement.

### 13. Securities Matters.

(1) **Registration.** If the Company deems it necessary or desirable to register or qualify the Warrant or any Shares with respect to which the Warrant has been granted or exercised under the Securities Act of 1933, as amended, or any other applicable statute or regulation, the Warrantee will cooperate with the Company and take such action as is necessary to permit registration or qualification of the Warrant or the Shares. The foregoing notwithstanding, the Company has no obligation to register the Warrant or any Shares.

(2) **Investment Intent.** Unless the Company has determined that the following representation is unnecessary, each person exercising any portion of the Warrant will be required, as a condition to the issuance of Shares pursuant to exercise of the Warrant, to make a representation in writing (a) that he or she is acquiring the Shares for his or her own account for investment and not with a view to, or for sale in connection with, the distribution of any part thereof, (b) that before any transfer in connection with the resale of the Shares, he or she will obtain the written opinion of counsel for the Company, or other counsel acceptable to the Company, that the Shares may be transferred. The Company may also place a stop transfer order with its transfer agent with respect to the Shares and require that certificates representing the Shares contain legends reflecting the foregoing.

### 14. Miscellaneous.

(1) **Requirements of Law.** The granting of the Warrant and the issuance of Shares are subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(2) **Choice of Law and Venue.** This Agreement is made under and must be governed by the laws of the State of Minnesota, and each of the parties hereto consents to venue any suit or action under or with regard to this Agreement in an appropriate court with jurisdiction in Hennepin County, Minnesota.

(3) **Notices.** All notices, requests and other communications from either party to the other hereunder must be given in writing and will be deemed to have been duly given if personally delivered, or sent by first class, certified mail, return receipt requested, postage prepaid, to the party may at the address as provided below, or to such other address as such party may hereafter designate by written notice to the other party:

(a) If the Company, to the address of its then principal office; and

(b) If to the Warrantee, to the residence address last shown in the records of the Company, which as of the date of this Agreement is as follows:

Karen A. Ventura  
824 Trotters Ridge  
Eagan, MN 55123

(4) **No obligation to Exercise.** The granting of the Warrant imposes no obligation upon the holder thereof to exercise the Warrant.

(5) **Amendments; Final Agreement.** This Agreement contains the complete and final understanding of the parties with respect to the subject matter hereof and supersedes all prior understanding and statements, written and oral. This Agreement may not be amended except in a written instrument signed by the party against whom enforcement is sought.

(6) **Headings.** Headings and captions used in this Agreement are for convenience and do not affect the meaning hereof.

15. **Share Issuance.** The Company will not be under any obligation to issue any Shares upon the exercise of this Warrant unless and until the Company has determined that:

(a) it and Warrantee have taken all actions required to register such Shares under the Securities Act, or to perfect an exemption from the registration requirements thereof;

(b) any applicable listing requirement of any stock exchange on which such Shares are listed has been satisfied; and

(c) all other applicable provisions of state and federal law have been satisfied.

16. **Tax Effect.** Warrantee acknowledges that the tax effect of the exercise of this Warrant and the sale of the underlying Shares is complicated, that Warrantee has consulted with his or her own professional advisor which respect to all tax matters relating to this Warrant and the exercise and sale of the Shares and has not relied on any assurances or representations of the Company as to such matters.

17. The Shares have not been registered and, therefore, they may not be sold, pledged, hypothecated, or otherwise transferred unless they are registered under the Securities Act of 1933, as amended, and applicable state securities laws or an exemption from such registration is available.

18. **Stock Legend.** A legend will be placed on any certificate evidencing the Shares in substantially the following form:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE STATE SECURITIES LAWS OF ANY STATE. WITHOUT SUCH REGISTRATION, SUCH SECURITIES MAY NOT BE SOLD, PLEDGED, HYPOTHECATED, OR OTHERWISE TRANSFERRED AT ANY TIME WHATSOEVER, EXCEPT UPON DELIVERY TO THE COMPANY OF AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED FOR SUCH TRANSFER AND/OR THE SUBMISSION TO THE COMPANY OF SUCH OTHER EVIDENCE AS MAY BE SATISFACTORY TO THE COMPANY TO THE EFFECT THAT ANY SUCH TRANSFER WILL NOT BE IN VIOLATION OF THE SECURITIES ACT OF 1933, AS AMENDED, AND/OR APPLICABLE STATE SECURITIES LAWS AND/OR ANY RULE OR REGULATION PROMULGATED THEREUNDER.

IN WITNESS WHEREOF, each of the parties hereto has executed this Stock Option Agreement, in the case of the Corporation by its duly authorized officer, as of the date and year written above.

**OPTIONEE**

**BIODRAIN MEDICAL, INC.,**  
a Minnesota corporation



By:



Karen A. Ventura

Its:

Kevin R. Davidson  
President & CEO

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

**BioDrain Medical, Inc.**

**ADVISORY WARRANT AGREEMENT**

This Warrant Agreement is made and entered as of the 20th day of December, 2006 (the Agreement Date”) by and between BioDrain Medical, Inc., a Minnesota corporation (“Company”) and Nancy A. Kolb (the “Warrantee”) as consideration for referrals and advisory work.

1. **Warrant Grant.** The Company hereby grants to the Warrantee a warrant (the “Warrant”) to purchase 5,000 shares (“Warrant Shares”, with each being a “Warrant Share”) of its \$0.01 par value common stock (“Share”), under the terms and conditions set forth below.
2. **Nonstatutory Option.** The Warrant is granted to purchase up to the number of shares of authorized but unissued common stock of the Company specified in Section 1 (the “Shares”). The Warrant will expire, and all rights to exercise it will terminate on the earliest of: (a) the date provided below in Sections 8 and 9, and (b) the Expiration Date.
3. **Exercise Price.** The exercise price of each Warrant Share of the Company as of any exercise date is \$1.00 per Share.
4. **Period of Exercise.** The Warrant will expire at 5:00 p.m. on the fifth anniversary of the Agreement Date (“the Expiration Date”).
5. **Vesting of Options.** Warrantee will have the right to exercise the Warrant in accordance with the following schedule:
  - (a) The Shares subject to Warrant will vest in 90 days from the Agreement Date.
6. **Transferability.** The Warrant is not transferable except by will or the laws of descent and distribution and may be exercised during the lifetime of the Warrantee only by the Warrantee, and if exercised following the Warrantee’s death, by the Warrantee’s legal representative upon presenting evidence of authority to act on behalf of the Warrantee’s estate acceptable to the Company.
7. **Change in Control.** If the Company enters into a binding agreement during the time that Warrantee is an Advisor to the Company that results in a change in control (as defined in the following sentence), then 100% of the Shares will vest. For purposes of this Warrant Agreement, “change in control” means that:
  - (a) any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity or person, or any syndicate or group deemed to be a person under Section 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is or becomes the “beneficial owner” (as defined in Rule 13d-3 of the General Rules and Regulations under the Exchange Act), directly or indirectly, of securities of the Corporation representing fifty percent (50%) or more of the combined voting power of the Company’s then outstanding securities entitled to vote in the election of directors of the Company; or

(b) there occurs a reorganization, merger, consolidation or other corporate transaction involving the Company (“Transaction”), in each case, with respect to which the stockholders of the Company immediately prior to such Transaction do not, immediately after the Transaction, own more than fifty percent (50%) of the combined voting power of the Company or other corporation resulting from such Transaction; or

(c) all or substantially all of the assets of the Company are sold, liquidated or distributed.

**8. Warrant Lapse.** The Warrant will lapse and becomes unexercisable in full on the earliest of the following events:

(a) three (3) months following the Warrantee’s death, as provided below in Section 9;

(b) the date otherwise provided below in Section 9, unless the Board of Directors otherwise extends such period before the applicable expiration date.

**9. Death of Warrantee.** If Warrantee dies during the period while he or she could have exercised a Warrant under the preceding sub-Sections, the Warrant granted to the Warrantee may be exercised, to the extent it has vested at the time of death at any time within ninety (90) days after the Warrantee’s death, by the executors or administrators of his or her estate or by any person or persons who acquire the Warrant by will or the laws of descent and distribution, but not beyond the otherwise applicable term of the Warrant.

**10. Adjustment in Capitalization.** If there is any change in the Outstanding common stock of the Company by reason of a stock dividend or split, recapitalization, reclassification, or other similar capital change, the aggregate number of Warrant Shares subject to the Warrant will be appropriately adjusted by the Company, as directed by the Board of Directors of the Company whose determination is final and conclusive, except that fractional Shares will be rounded to the nearest whole Share. In any such case, the number and kind of Shares that are subject to the Warrant and the Warrant exercise price per Share will be proportionately adjusted without any change in the aggregate Warrant price to be paid upon exercise of the Warrant.

**11. Amendment, Modification and Termination of Agreement.** The Board of Directors of the Company may at any time terminate, and from time to time may amend or modify Agreement; provided, however, that no amendment, modification, or termination of this Agreement may in any manner adversely affect the Warrant without the consent of the Warrantee.

**12. Lock up Period.** The Warrantee understands that the Company at a future date may file a registration or offering statement (the “Registration Statement”) with the Securities and Exchange Commission to facilitate an initial public offering of its securities. The Warrantee agrees, for the benefit of the Company, that should such an initial public offering be made and should the managing underwriter of such offering require, the Warrantee will not, without the prior written consent of the Company and such underwriter, during the Lock Up Period as defined herein: (i) sell, transfer or otherwise dispose of, or agree to sell, transfer or otherwise dispose of any Shares beneficially held by the Warrantee during the Lock Up Period; (ii) sell, transfer or otherwise dispose of, or agree to sell, transfer or otherwise dispose of any options, rights or warrants to purchase any Shares beneficially held by the Warrantee during the Lock Up Period; or (iii) sell or grant, or agree to sell or grant, options, rights or warrants with respect to any Shares. The foregoing does not prohibit gifts to donees or transfers by will or the laws of descent to heirs or beneficiaries provided that such donees, heirs and beneficiaries are bound by the restrictions set forth herein. The term “Lock Up Period” means the lesser of (a) 180 days or (b) the period during which Company officers and directors are restricted by the managing underwriter from effecting any sales or transfers of the Company’s common stock. The Lock Up Period will commence on the effective of the Registration Statement.

### 13. Securities Matters.

(1) **Registration.** If the Company deems it necessary or desirable to register or qualify the Warrant or any Shares with respect to which the Warrant has been granted or exercised under the Securities Act of 1933, as amended, or any other applicable statute or regulation, the Warrantee will cooperate with the Company and take such action as is necessary to permit registration or qualification of the Warrant or the Shares. The foregoing notwithstanding, the Company has no obligation to register the Warrant or any Shares.

(2) **Investment Intent.** Unless the Company has determined that the following representation is unnecessary, each person exercising any portion of the Warrant will be required, as a condition to the issuance of Shares pursuant to exercise of the Warrant, to make a representation in writing (a) that he or she is acquiring the Shares for his or her own account for investment and not with a view to, or for sale in connection with, the distribution of any part thereof, (b) that before any transfer in connection with the resale of the Shares, he or she will obtain the written opinion of counsel for the Company, or other counsel acceptable to the Company, that the Shares may be transferred. The Company may also place a stop transfer order with its transfer agent with respect to the Shares and require that certificates representing the Shares contain legends reflecting the foregoing.

### 14. Miscellaneous.

(1) **Requirements of Law.** The granting of the Warrant and the issuance of Shares are subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(2) **Choice of Law and Venue.** This Agreement is made under and must be governed by the laws of the State of Minnesota, and each of the parties hereto consents to venue any suit or action under or with regard to this Agreement in an appropriate court with jurisdiction in Hennepin County, Minnesota.

(3) **Notices.** All notices, requests and other communications from either party to the other hereunder must be given in writing and will be deemed to have been duly given if personally delivered, or sent by first class, certified mail, return receipt requested, postage prepaid, to the party may at the address as provided below, or to such other address as such party may hereafter designate by written notice to the other party:

(a) If the Company, to the address of its then principal office; and

(b) If to the Warrantee, to the residence address last shown in the records of the Company, which as of the date of this Agreement is as follows:

Nancy A. Kolb  
4744 Drew Ave. So.  
Minneapolis, MN 55410

(4) **No obligation to Exercise.** The granting of the Warrant imposes no obligation upon the holder thereof to exercise the Warrant.

(5) **Amendments; Final Agreement.** This Agreement contains the complete and final understanding of the parties with respect to the subject matter hereof and supersedes all prior understanding and statements, written and oral. This Agreement may not be amended except in a written instrument signed by the party against whom enforcement is sought.

(6) **Headings.** Headings and captions used in this Agreement are for convenience and do not affect the meaning hereof.



15. **Share Issuance.** The Company will not be under any obligation to issue any Shares upon the exercise of this Warrant unless and until the Company has determined that:

(a) it and Warrantee have taken all actions required to register such Shares under the Securities Act, or to perfect an exemption from the registration requirements thereof;

(b) any applicable listing requirement of any stock exchange on which such Shares are listed has been satisfied; and

(c) all other applicable provisions of state and federal law have been satisfied.

16. **Tax Effect.** Warrantee acknowledges that the tax effect of the exercise of this Warrant and the sale of the underlying Shares is complicated, that Warrantee has consulted with his or her own professional advisor which respect to all tax matters relating to this Warrant and the exercise and sale of the Shares and has not relied on any assurances or representations of the Company as to such matters.

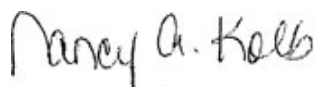
17. The Shares have not been registered and, therefore, they may not be sold, pledged, hypothecated, or otherwise transferred unless they are registered under the Securities Act of 1933, as amended, and applicable state securities laws or an exemption from such registration is available.

18. **Stock Legend.** A legend will be placed on any certificate evidencing the Shares in substantially the following form:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE STATE SECURITIES LAWS OF ANY STATE. WITHOUT SUCH REGISTRATION, SUCH SECURITIES MAY NOT BE SOLD, PLEDGED, HYPOTHECATED, OR OTHERWISE TRANSFERRED AT ANY TIME WHATSOEVER, EXCEPT UPON DELIVERY TO THE COMPANY OF AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED FOR SUCH TRANSFER AND/OR THE SUBMISSION TO THE COMPANY OF SUCH OTHER EVIDENCE AS MAY BE SATISFACTORY TO THE COMPANY TO THE EFFECT THAT ANY SUCH TRANSFER WILL NOT BE IN VIOLATION OF THE SECURITIES ACT OF 1933, AS AMENDED, AND/OR APPLICABLE STATE SECURITIES LAWS AND/OR ANY RULE OR REGULATION PROMULGATED THEREUNDER.

IN WITNESS WHEREOF, each of the parties hereto has executed this Warrant Agreement, in the case of the Corporation by its duly authorized officer, as of the date and year written above.

OPTIONEE



Nancy A. Kolb

**BIODRAIN MEDICAL, Inc.,**  
a Minnesota corporation

By:

12/20/06

Its:

Kevin R. Davidson  
President & CEO



President & CEO

12/27/06

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

**BioDrain Medical, Inc.**

**ADVISORY WARRANT AGREEMENT**

This Warrant Agreement is made and entered as of the 20th day of December, 2006 (the Agreement Date”) by and between BioDrain Medical, Inc., a Minnesota corporation (“Company”) and Kim Shelquist (the “Warrantee”) as consideration for referrals and advisory work.

1. **Warrant Grant.** The Company hereby grants to the Warrantee a warrant (the “Warrant”) to purchase 5,000 shares (“Warrant Shares”, with each being a “Warrant Share”) of its \$0.01 par value common stock (“Share”), under the terms and conditions set forth below.
2. **Nonstatutory Option.** The Warrant is granted to purchase up to the number of shares of authorized but unissued common stock of the Company specified in Section 1 (the “Shares”). The Warrant will expire, and all rights to exercise it will terminate on the earliest of: (a) the date provided below in Sections 8 and 9, and (b) the Expiration Date.
3. **Exercise Price.** The exercise price of each Warrant Share of the Company as of any exercise date is \$1.00 per Share.
4. **Period of Exercise.** The Warrant will expire at 5:00 p.m. on the fifth anniversary of the Agreement Date (“the Expiration Date”).
5. **Vesting of Options.** Warrantee will have the right to exercise the Warrant in accordance with the following schedule:
  - (a) The Shares subject to Warrant will vest in 90 days from the Agreement Date.
6. **Transferability.** The Warrant is not transferable except by will or the laws of descent and distribution and may be exercised during the lifetime of the Warrantee only by the Warrantee, and if exercised following the Warrantee’s death, by the Warrantee’s legal representative upon presenting evidence of authority to act on behalf of the Warrantee’s estate acceptable to the Company.
7. **Change In Control.** If the Company enters into a binding agreement during the time that Warrantee is an Advisor to the Company that results in a change in control (as defined in the following sentence), then 100% of the Shares will vest. For purposes of this Warrant Agreement, “change in control” means that:
  - (a) any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity or person, or any syndicate or group deemed to be a person under Section 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is or becomes the “beneficial owner” (as defined in Rule 13d-3 of the General Rules and Regulations under the Exchange Act), directly or indirectly, of securities of the Corporation representing fifty percent (50%) or more of the combined voting power of the Company’s then outstanding securities entitled to vote in the election of directors of the Company; or

(b) there occurs a reorganization, merger, consolidation or other corporate transaction involving the Company (“Transaction”), in each case, with respect to which the stockholders of the Company immediately prior to such Transaction do not, immediately after the Transaction, own more than fifty percent (50%) of the combined voting power of the Company or other corporation resulting from such Transaction; or

(c) all or substantially all of the assets of the Company are sold, liquidated or distributed.

**8. Warrant Lapse.** The Warrant will lapse and becomes unexercisable in full on the earliest of the following events:

(a) three (3) months following the Warrantee’s death, as provided below in Section 9;

(b) the date otherwise provided below in Section 9, unless the Board of Directors otherwise extends such period before the applicable expiration date.

**9. Death of Warrantee.** If Warrantee dies during the period while he or she could have exercised a Warrant under the preceding sub-Sections, the Warrant granted to the Warrantee may be exercised, to the extent it has vested at the time of death at any time within ninety (90) days after the Warrantee’s death, by the executors or administrators of his or her estate or by any person or persons who acquire the Warrant by will or the laws of descent and distribution, but not beyond the otherwise applicable term of the Warrant.

**10. Adjustment in Capitalization.** If there is any change in the outstanding common stock of the Company by reason of a stock dividend or split, recapitalization, reclassification, or other similar capital change, the aggregate number of Warrant Shares subject to the Warrant will be appropriately adjusted by the Company, as directed by the Board of Directors of the Company whose determination is final and conclusive, except that fractional Shares will be rounded to the nearest whole Share. In any such case, the number and kind of Shares that are subject to the Warrant and the Warrant exercise price per Share will be proportionately adjusted without any change in the aggregate Warrant price to be paid upon exercise of the Warrant.

**11. Amendment, Modification and Termination of Agreement.** The Board of Directors of the Company may at any time terminate, and from time to time may amend or modify Agreement; provided, however, that no amendment, modification, or termination of this Agreement may in any manner adversely affect the Warrant without the consent of the Warrantee.

**12. Lock up Period.** The Warrantee understands that the Company at a future date may file a registration or offering statement (the “Registration Statement”) with the Securities and Exchange Commission to facilitate an initial public offering of its securities. The Warrantee agrees, for the benefit of the Company, that should such an initial public offering be made and should the managing underwriter of such offering require, the Warrantee will not, without the prior written consent of the Company and such underwriter, during the Lock Up Period as defined herein: (i) sell, transfer or otherwise dispose of, or agree to sell, transfer or otherwise dispose of any Shares beneficially held by the Warrantee during the Lock Up Period; (ii) sell, transfer or otherwise dispose of, or agree to sell, transfer or otherwise dispose of any options, rights or warrants to purchase any Shares beneficially held by the Warrantee during the Lock Up Period; or (iii) sell or grant, or agree to sell or grant, options, rights or warrants with respect to any Shares. The foregoing does not prohibit gifts to donees or transfers by will or the laws of descent to heirs or beneficiaries provided that such donees, heirs and beneficiaries are bound by the restrictions set forth herein. The term “Lock Up Period” means the lesser of (a) 180 days or (b) the period during which Company officers and directors are restricted by the managing underwriter from effecting any sales or transfers of the Company’s common stock. The Lock Up Period will commence on the effective of the Registration Statement.

### 13. Securities Matters.

(1) **Registration.** If the Company deems it necessary or desirable to register or qualify the Warrant or any Shares with respect to which the Warrant has been granted or exercised under the Securities Act of 1933, as amended, or any other applicable statute or regulation, the Warrantee will cooperate with the Company and take such action as is necessary to permit registration or qualification of the Warrant or the Shares. The foregoing notwithstanding, the Company has no obligation to register the Warrant or any Shares.

(2) **Investment Intent.** Unless the Company has determined that the following representation is unnecessary, each person exercising any portion of the Warrant will be required, as a condition to the issuance of Shares pursuant to exercise of the Warrant, to make a representation in writing (a) that he or she is acquiring the Shares for his or her own account for investment and not with a view to, or for sale in connection with, the distribution of any part thereof, (b) that before any transfer in connection with the resale of the Shares, he or she will obtain the written opinion of counsel for the Company, or other counsel acceptable to the Company, that the Shares may be transferred. The Company may also place a stop transfer order with its transfer agent with respect to the Shares and require that certificates representing the Shares contain legends reflecting the foregoing.

### 14. Miscellaneous.

(1) **Requirements of Law.** The granting of the Warrant and the issuance of Shares are subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(2) **Choice of Law and Venue.** This Agreement is made under and must be governed by the laws of the State of Minnesota, and each of the parties hereto consents to venue any suit or action under or with regard to this Agreement in an appropriate court with jurisdiction in Hennepin County, Minnesota.

(3) **Notices.** All notices, requests and other communications from either party to the other hereunder must be given in writing and will be deemed to have been duly given if personally delivered, or sent by first class, certified mail, return receipt requested, postage prepaid, to the party may at the address as provided below, or to such other address as such party may hereafter designate by written notice to the other party:

(a) If the Company, to the address of its then principal office; and

(b) If to the Warrantee, to the residence address last shown in the records of the Company, which as of the date of this Agreement is as follows:

Kim Shelquist  
19820 Near Mountain Road.  
Shorewood, MN 55331

(4) **No obligation to Exercise.** The granting of the Warrant imposes no obligation upon the holder thereof to exercise the Warrant.

(5) **Amendments; Final Agreement.** This Agreement contains the complete and final understanding of the parties with respect to the subject matter hereof and supersedes all prior understanding and statements, written and oral. This Agreement may not be amended except in a written instrument signed by the party against whom enforcement is sought.

(6) **Headings.** Headings and captions used in this Agreement are for convenience and do not affect the meaning hereof.

15. **Share Issuance.** The Company will not be under any obligation to issue any Shares upon the exercise of this Warrant unless and until the Company has determined that:

(a) it and Warrantee have taken all actions required to register such Shares under the Securities Act, or to perfect an exemption from the registration requirements thereof;

(b) any applicable listing requirement of any stock exchange on which such Shares are listed has been satisfied; and

(c) all other applicable provisions of state and federal law have been satisfied.

16. **Tax Effect.** Warrantee acknowledges that the tax effect of the exercise of this Warrant and the sale of the underlying Shares is complicated that Warrantee has consulted with his or her own professional advisor which respect to all tax matters relating to this Warrant and the exercise and sale of the Shares and has not relied on any assurances or representations of the Company as to such matters.

17. The Shares have not been registered and, therefore, they may not be sold, pledged, hypothecated, or otherwise transferred unless they are registered under the Securities Act of 1933, as amended, and applicable state securities laws or an exemption from such registration is available.

18. **Stock Legend.** A legend will be placed on any certificate evidencing the Shares in substantially the following form:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE STATE SECURITIES LAWS OF ANY STATE. WITHOUT SUCH REGISTRATION, SUCH SECURITIES MAY NOT BE SOLD, PLEDGED, HYPOTHECATED, OR OTHERWISE TRANSFERRED AT ANY TIME WHATSOEVER, EXCEPT UPON DELIVERY TO THE COMPANY OF AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED FOR SUCH TRANSFER AND/OR THE SUBMISSION TO THE COMPANY OF SUCH OTHER EVIDENCE AS MAY BE SATISFACTORY TO THE COMPANY TO THE EFFECT THAT ANY SUCH TRANSFER WILL NOT BE IN VIOLATION OF THE SECURITIES ACT OF 1933, AS AMENDED, AND/OR APPLICABLE STATE SECURITIES LAWS AND/OR ANY RULE OR REGULATION PROMULGATED THEREUNDER.

IN WITNESS WHEREOF, each of the parties hereto has executed this Warrant Agreement in the case of the Corporation by its duly authorized officer, as of the date and year written above.

**OPTIONEE**

**BIODRAIN MEDICAL, INC.,**  
a Minnesota corporation



Kim Shelquist

By: \_\_\_\_\_



Kevin R. Davidson  
President & CEO

Its: \_\_\_\_\_

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

**BioDrain Medical, Inc.**

**WARRANT AGREEMENT**

This Warrant Agreement is made and entered as of the 1st day of December, 2006 (the Agreement Date”) by and between BioDrain Medical, Inc., a Minnesota corporation (“Company”) and Wisconsin Rural Enterprise Fund, LLC (the “Warrantee”) in conjunction with the Stock Sale and Purchase Agreement dated December 1, 2006 between the Company and Warrantee.

1. **Warrant Grant.** The Company hereby grants to the Warrantee a warrant (the “Warrant”) to purchase 35,000 shares (“Warrant Shares”, with each being a “Warrant Share”) of its \$0.01 par value common stock (“Share”), under the terms and conditions set forth below.
2. **Nonstatutory Option.** The Warrant is granted to purchase up to the number of shares of authorized but unissued common stock of the Company specified in Section 1 (the “Shares”). The Warrant will expire, and all rights to exercise it will terminate on the Expiration Date.
3. **Exercise Price.** The exercise price of each Warrant Share of the Company as of any exercise date is \$1.00 per Share.
4. **Period of Exercise.** The Warrant will expire at 5:00 p.m. on December 31, 2011, or thirty (30) days following the fifth anniversary of the Agreement Date (“the Expiration Date”).
5. **Vesting of Options.** Warrantee will have the right to exercise the Warrant in whole or in part and at any time or from time to time following the Agreement Date.
6. **Issuance of Shares.** The Company agrees that the shares purchased hereby shall be and are deemed to be issued to the record holder hereof as of the close of business on the date or dates on which this Warrant is exercised and the payment made for such shares as aforesaid. Certificates for the shares of stock so purchased shall be delivered to the holder hereof within a reasonable time, not exceeding ten (10) days after the rights represented by this Warrant shall have been so exercised.
7. **Covenants of Company.** The Company covenants and agrees that all shares which may be issued upon the exercise of this Warrant will, upon issuance, be duly authorized and issued, fully paid, nonassessable and free from all taxes, liens and charges with respect to the issue thereof, and without limiting the generability of the foregoing, the Company covenants and agrees that at all times during the period within which the rights represented by this Warrant may be exercised, the Company will have authorized, and reserved for the purpose of issue or transfer upon exercise of the subscription rights evidenced by this Warrant, a sufficient number of shares of its common stock to provide for the exercise of the rights represented by this Warrant.
8. **Transferability.** The rights and obligations incident to this Warrant shall be binding upon and inure to the benefit of subsidiaries of the parties and their successors, but such rights and obligations shall otherwise not be subject to transfer or assignment.
8. **Adjustment in Capitalization.** If there is any change in the outstanding common stock of the Company by reason of a stock dividend or split, recapitalization, reclassification, or other similar capital change, the aggregate number of Warrant Shares subject to the Warrant will be appropriately adjusted by the Company, as directed by the Board of Directors of the Company whose determination is final and conclusive, except that fractional Shares will be rounded to the nearest whole Share. In any such case, the number and kind of

Shares that are subject to the Warrant and the Warrant exercise price per Share will be proportionately adjusted without any change in the aggregate Warrant price to be paid upon exercise of the Warrant.

**9. Amendment, Modification and Termination of Agreement.** The Agreement may not be amended, modified or terminated without the written consent of both parties.

**10. Lock up Period.** The Warrantee understands that the Company at a future date may file a registration or offering statement (the "Registration Statement") with the Securities and Exchange Commission to facilitate an initial public offering of its securities. The Warrantee agrees, for the benefit of the Company, that should such an initial public offering be made and should the managing underwriter of such offering require, the Warrantee will not, without the prior written consent of the Company and such underwriter, during the Lock Up Period as defined herein: (i) sell, transfer or otherwise dispose of, or agree to sell, transfer or otherwise dispose of any Shares beneficially held by the Warrantee during the Lock Up Period; (ii) sell, transfer or otherwise dispose of, or agree to sell, transfer or otherwise dispose of any options, rights or warrants to purchase any Shares beneficially held by the Warrantee during the Lock Up Period; or (iii) sell or grant, or agree to sell or grant, options, rights or warrants with respect to any Shares. The foregoing does not prohibit gifts to donees or transfers by will or the laws of descent to heirs or beneficiaries provided that such donees, heirs and beneficiaries are bound by the restrictions set forth herein. The term "Lock Up Period" means the lesser of (a) 180 days or (b) the period during which Company officers and directors are restricted by the managing underwriter from effecting any sales or transfers of the Company's common stock. The Lock Up Period will commence on the effective of the Registration Statement.

#### **11. Securities Matters.**

(1) **Registration.** If the Company deems it necessary or desirable to register or qualify the Warrant or any Shares with respect to which the Warrant has been granted or exercised under the Securities Act of 1933, as amended, or any other applicable statute or regulation, the Warrantee will cooperate with the Company and take such action as is necessary to permit registration or qualification of the Warrant or the Shares. The foregoing notwithstanding, the Company has no obligation to register the Warrant or any Shares.

(2) **Investment Intent.** Unless the Company has determined that the following representation is unnecessary, each person exercising any portion of the Warrant will be required, as a condition to the issuance of Shares pursuant to exercise of the Warrant, to make a representation in writing (a) that he or she is acquiring the Shares for his or her own account for investment and not with a view to, or for sale in connection with, the distribution of any part thereof, (b) that before any transfer in connection with the resale of the Shares, he or she will obtain the written opinion of counsel for the Company, or other counsel acceptable to the Company, that the Shares may be transferred. The Company may also place a stop transfer order with its transfer agent with respect to the Shares and require that certificates representing the Shares contain legends reflecting the foregoing.

#### **12. Miscellaneous.**

(1) **Requirements of Law.** The granting of the Warrant and the issuance of Shares are subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(2) **Choice of Law and Venue.** This Agreement is made under and must be governed by the laws of the State of Minnesota, and each of the parties hereto consents to venue any suit or action under or with regard to this Agreement in an appropriate court with jurisdiction in Hennepin County, Minnesota.

(3) **Notices.** All notices, requests and other communications from either party to the other hereunder must be given in writing and will be deemed to have been duly given if personally delivered, or sent by first class, certified mail, return receipt requested, postage prepaid, to the party may at the address as provided below, or to such other address as such party may hereafter designate by written notice to the other party:

(a) If the Company, to the address of its then principal office; and

(b) If to the Warrantee, to the business address last shown in the records of the Company, which as of the date of this Agreement is as follows:

Wisconsin Rural Enterprise Fund, LLC  
1400 So. River Street  
Spooner, WI 54801

(4) **No obligation to Exercise.** The granting of the Warrant imposes no obligation upon the holder thereof to exercise the Warrant.

(5) **Amendments; Final Agreement.** This Agreement contains the complete and final understanding of the parties with respect to the subject matter hereof and supersedes all prior understanding and statements, written and oral. This Agreement may not be amended except in a written instrument signed by the party against whom enforcement is sought.

(6) **Headings.** Headings and captions used in this Agreement are for convenience and do not affect the meaning hereof.

13. **Share Issuance.** The Company will not be under any obligation to issue any Shares upon the exercise of this Warrant unless and until the Company has determined that:

(a) it and Warrantee have taken all actions required to register such Shares under the Securities Act, or to perfect an exemption from the registration requirements thereof;

(b) any applicable listing requirement of any stock exchange on which such Shares are listed has been satisfied; and

(c) all other applicable provisions of state and federal law have been satisfied.

14. **Tax Effect.** Warrantee acknowledges that the tax effect of the exercise of this Warrant and the sale of the underlying Shares is complicated, that Warrantee has consulted with its own professional advisor which respect to all tax matters relating to this Warrant and the exercise and sale of the Shares and has not relied on any assurances or representations of the Company as to such matters.

15. The Shares have not been registered and, therefore, they may not be sold, pledged, hypothecated, or otherwise transferred unless they are registered under the Securities Act of 1933, as amended, and applicable state securities laws or an exemption from such registration is available.

16. **Stock Legend.** A legend will be placed on any certificate evidencing the Shares in substantially the following form:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE STATE SECURITIES LAWS OF ANY STATE. WITHOUT SUCH REGISTRATION, SUCH SECURITIES MAY NOT BE SOLD, PLEDGED, HYPOTHECATED, OR OTHERWISE TRANSFERRED AT ANY TIME WHATSOEVER, EXCEPT UPON DELIVERY TO THE COMPANY OF AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED FOR SUCH TRANSFER AND/OR THE SUBMISSION TO THE COMPANY OF SUCH OTHER EVIDENCE AS MAY BE SATISFACTORY TO THE COMPANY TO THE EFFECT THAT ANY SUCH TRANSFER WILL NOT BE IN VIOLATION OF THE SECURITIES ACT OF 1933, AS AMENDED, AND/OR APPLICABLE STATE SECURITIES LAWS AND/OR ANY RULE OR REGULATION PROMULGATED THEREUNDER.



IN WITNESS WHEREOF, each of the parties hereto has executed this Warrant Agreement, in the case of the Corporation by its duly authorized officer, as of the date and year written above.

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**Wisconsin Rural Enterprise Fund, LLC**

**BIODRAIN MEDICAL, INC.,**  
a Minnesota corporation

By

By:

Its

Its:

---

Kevin R. Davidson  
President & CEO

**STOCK PURCHASE AND SALE AGREEMENT**

This Stock Purchase and Sale Agreement ("Agreement") entered into this \_\_\_\_\_ day of \_\_\_\_\_, 2006 by and between Wisconsin Rural Enterprise Fund, LLC ("WREF"), a Wisconsin Limited Liability Company, and BioDrain Medical, Inc. ("BioDrain"), a Minnesota Corporation.

WHEREAS, WREF has loaned BioDrain \$12,500.00 ("WREF Loan"), which is evidenced by a note from BioDrain to WREF ("BioDrain Note"); and

WHEREAS, the current principal balance of the WREF Loan is \$12,500.00; and

WHEREAS, BioDrain has agreed to issue and WREF has agreed to accept 13,000 shares of BioDrain common stock as payment in full of the WREF Loan; and

WHEREAS, the Northwest Wisconsin Business Development Corporation ("NWBD") loaned BioDrain \$25,000.00 under its Micro Loan Program ("Micro Loan") and

WHEREAS, the balance due under the Micro Loan as of December 1, 2006, will be \$25,965.03; and

WHEREAS, NWBD loaned BioDrain \$18,000.00 under its Tech Seed Loan Program ("Tech Loan"); and

WHEREAS, the balance due under the Tech Loan as of December 1, 2006 will be \$18,000.00 in principal and \$3,103.42 in interest; and

WHEREAS, WREF wishes to purchase an additional 30,000 shares of BioDrain common stock under the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the mutual promises and covenants herein contained, it is agreed by and between the parties as follows:

**ARTICLE I  
SALE AND PURCHASE OF SHARES**

1.1 WREF Loan. At Closing, and as payment in full of the WREF Loan, BioDrain shall issue 13,000 shares of BioDrain common stock to WREF.

1.2 Sale. BioDrain shall sell 30,000 shares of BioDrain common stock to WREF for the price of \$1.00 per share payable in cash or equivalent at Closing, free and clear of all liens, encumbrances, purchase rights, claims, pledges, mortgages, security interests, or other limitations or restrictions whatsoever, except for transfer restrictions under state and

federal securities laws (the 13,000 shares and the 30,000 shares shall be collectively referred to as the "Shares").

1.3 Purchase. Subject to the terms and conditions of this Agreement and upon receipt of the Shares and Warrant, WREF shall pay BioDrain the sum of \$30,000.00 ("Purchase Price") and mark the BioDrain Note "Paid in Full."

**ARTICLE II  
WARRANT**

BioDrain grants WREF a warrant to purchase a total of 35,000 fully paid and non-assessable assessable shares of BioDrain common stock at the price of \$1.00 per share (the "Warrant"). The Warrant shall expire on December 31, 2011 and may be exercised in whole or in part and at any time or from time to time on or before December 31, 2011. The Warrant shall be in form reasonably acceptable to WREF. The shares purchased under the Warrant shall be free and clear of all liens, encumbrances, purchase rights, claims, pledges, mortgages, security interests, or other limitations or restrictions whatsoever, except for transfer restrictions under state and federal securities laws.

**ARTICLE III  
CLOSING**

Upon all the terms and conditions of Article IV being met, WREF shall promptly deliver to BioDrain \$30,000.00 and the BioDrain Note marked "Paid in Full" and BioDrain shall simultaneously deliver to WREF 43,000 fully paid and non-assessable shares of BioDrain common stock and the Warrant. Unless extended by mutual written agreement of the parties, the sale and purchase of the Shares must take place on or before December 1, 2006 ("Closing Date"), or this Agreement and any other agreements entered into by either or both of the parties in connection with this transaction shall be null and void.

**ARTICLE IV  
CONTINGENCIES TO CLOSING**

4.1 WREF's obligation to close this transaction is contingent upon the fulfillment of the following conditions or their waiver by WREF:

A. A person chosen by WREF shall have been elected to serve on the Board of Directors of BioDrain until such time as BioDrain is no longer indebted to WBIC. At that time BioDrain at its discretion and with due consideration given to opinions expressed by WREF, would determine whether WREF would continue to hold a Board seat. The decision would be based as well on the limit of Board seats to seven people and any requests for additional Board seats by any large, new investors.

B. BioDrain shall pay \$25,965.03 to NWBDC as payment in full of the Micro Loan.

C. BioDrain shall pay \$3,103.42 to NWBDC as payment of interest accrued to December 1, 2006, on the Tech Loan.

D. BioDrain shall sign a renewal note in the amount of \$18,000.00 representing the principal balance due on the Tech Loan, Said note shall mature on December 1, 2007; have a fixed rate of interest of 8.0% per annum; and monthly payments of interest only due January 1, 2007, and on the first day of each consecutive month thereafter.

E. BioDrain shall issue 5,000 shares of its common stock to Wisconsin Business Innovation Corporation ("WBIC") in payment of technical assistance provided by WBIC. The shares issued to WBIC shall be free and clear of all liens, encumbrances, purchase rights, claims, pledges, mortgages, security interests, or other limitations or restrictions whatsoever, except for transfer restrictions under state and federal securities laws

F. All the representations and warranties made by BioDrain in this Agreement shall be true and correct in all material respects as of the date of this Agreement and the Closing Date.

G. No material adverse change shall have occurred and no event shall have occurred which, in the judgment of WREF, might have a material adverse effect on BioDrain.

H. Delivery of the Shares and Warrant

I. BioDrain shall have obtained all necessary approvals from its Board of Directors concerning the terms of this Agreement

4.2 BioDrain's obligation to close this transaction is contingent upon the fulfillment of the following conditions or their waiver by BioDrain:

A. All the representation and warranties made by WREF in this Agreement shall be true and correct in all material respects as of the date of this Agreement and the Closing Date.

B. Payment of the Purchase Price.

C. Receipt of the BioDrain Note marked "Paid in Full."

**ARTICLE V  
CONTINUING CONDITIONS**

5.1 So long as WREF is a shareholder of BioDrain of BioDrain is indebted to WREF, the following conditions shall be binding on BioDrain:

A. In the event that BioDrain issues one or more new classes or series of stock, each new class or series of stock shall be subject to a right of first refusal in favor of WREF. If BioDrain in receipt of a subscription agreement or other offer to purchase ("Offer") of any shares of any class or series of stock from any person or entity other than WREF, BioDrain shall, prior to acceptance of the Offer, and as a condition to the validity of any such acceptance, send a complete copy of the Offer to WREF, together with written notice to WREF ("BioDrain's Notice") that WREF has the right to purchase, on the same terms and conditions (on a per share basis) specified in the Offer, up to the number of shares necessary for WREF to maintain its percentage ownership in BioDrain prior to the Offering on a fully diluted basis after the Offering.

WREF shall have seven (7) days from receipt of BioDrain's Notice to notify BioDrain of its intention to purchase all or a portion of the stock in accordance with BioDrain's Notice. If WREF purchases fewer than all of the shares of stock it could purchase to maintain its percent ownership, it shall state in its notice to BioDrain the number of shares of stock it intends on purchasing.

If WREF does not notify BioDrain within said seven (7) days of its intention to purchase all or a portion of the stock as aforesaid, then BioDrain shall have the right to sell the stock to the party that made the Offer, but solely according to the terms and conditions indicated in the Offer. If WREF notifies BioDrain that it will only purchase a portion of the stock that it could purchase, BioDrain may sell the remaining shares to the party who made the Offer solely according to the terms and conditions indicated in the Offer. If the stock is not transferred or conveyed to the offeree upon the terms and conditions in the Offer within four (4) months from the date WREF received BioDrain's Notice, then the BioDrain's Notice theretofore given shall be void, and the requirement that BioDrain comply with the above procedure shall be reinstated, and WREF's Right of First Refusal shall remain in full force and effect. No sale, transfer, conveyance or other disposition of stock from any new class or series shall be effective unless BioDrain shall have first complied in full with the provisions of this Article V.

If WREF exercises its Right of First Refusal, WREF shall purchase the shares of BioDrain stock set forth in its notice within thirty (30) days of BioDrain receiving WREF's notice exercising this Right of First Refusal. BioDrain agrees to transfer the stock to WREF free and clear of all liens, encumbrances, purchase

rights, claims, pledges, mortgages, security interests, or other limitations or restrictions whatsoever, except for transfer restrictions under state and federal securities laws

B. If BioDrain sells or otherwise transfers, to any person or entity other than WREF, any shares of BioDrain stock, whether authorized now or in the future, at a price that is less than the weighted average of the price paid per share for all BioDrain shares owned by WREF, BioDrain shall transfer to WREF, at no cost to WREF, the number of shares of the same class or series of stock determined as follows:

1. Subtract the price paid per share for the BioDrain stock purchased by the third party from the weighted average of the price paid per share for all shares of BioDrain stock owned by WREF.
2. Multiply the amount calculated in paragraph 1 above by the total number of shares of BioDrain stock owned by WREF.
3. Divide the amount calculated in paragraph 2 above by the purchase price of each share of BioDrain stock transferred to the third party, which is equal to the number of shares of BioDrain stock to be transferred to WREF.
4. For example, if WREF owned 70,000 shares of BioDrain stock, a third party purchased 1000 shares of BioDrain stock at \$0.80 per share and the weighted average of all shares of BioDrain stock was \$1.00 per share, BioDrain would transfer 17,500 shares of stock to WREF -  $\$1.00 - \$0.80 - \$0.20$ ;  $\$0.20 \times 70,000 \text{ shares} = \$14,000$ ;  $\$14,000 / \$0.80 / \text{shares} = 17,500 \text{ shares}$ .

5.3 So long as WREF is a shareholder of BioDrain or BioDrain is indebted to WREF, BioDrain shall locate and maintain a significant business presence in Northwest Wisconsin.

## **ARTICLE VI FINANCIAL STATEMENTS**

6.1 BioDrain shall provide quarterly, in-house financial statements to WREF within 60 days of the end of each fiscal quarter, commencing with the quarter ending March 31, 2007.

6.2 BioDrain shall provide WREF an annual audited or reviewed financial statement within 90 days of its fiscal year end, commencing for the year ending December 31, 2006.

## **ARTICLE XII BIODRAIN'S REPRESENTATIONS AND WARRANTIES**

BioDrain represents and warranties to WREF as follows:

7.1 BioDrain has issued only one class and/or series of shares.

7.2 The current shareholders of BioDrain and the number of shares owned by each shareholder are listed on Exhibit A.

7.3 Except as set forth on Exhibit B, there are no outstanding warrants, options, preemptive rights, or other rights to purchase or acquire any shares in BioDrain.

7.4 BioDrain is duly incorporated, in good standing and validly existing under the laws of Minnesota and is duly licensed or qualified and in good standing in Wisconsin and all jurisdictions where the ownership or leasing of property or the nature of business transacted makes such qualification necessary, or where the failure to qualify would have a material adverse effect on the business or financial condition of BioDrain. BioDrain has the power and authority to own its properties and carry on its business as now conducted and as currently proposed to be conducted and to enter into, execute and deliver this Agreement and to perform its obligations hereunder.

7.5 This Agreement has been duly authorized by all necessary action on the part of BioDrain.

7.6 The execution, delivery and performance of the Agreement are duly authorized and are not in contravention of or conflict with any term or provision of BioDrain's Articles of Incorporation or Bylaws, or, if in conflict, shall be amended to allow the actions contemplated this Agreement.

7.7 This Agreement is a valid, binding and the legally enforceable obligation of BioDrain in accordance with its terms.

7.8 The execution, delivery and performance of this Agreement does not require the consent or approval of any governmental body or other regulatory authority and are not in contravention of or conflict with any law, rule, regulation, order, writ, judgment, decree, determination or award currently in effect.

7.9 The execution, delivery and performance of this Agreement is not in contravention or in conflict with any agreement, indenture, or undertaking to which BioDrain is a party or by which it or any of its property may be bound or affected, and does not cause any lien, charge or other encumbrance to be created or imposed upon any such property by reason thereof.

7.10 There is no litigation or other proceeding pending or threatened against or affecting BioDrain, including without limitation, a filing under the Bankruptcy Code, an assignment for the benefit of Creditors, or receivership of BioDrain imposed by a third

party and it is not in default with respect to any order, writ, injunction, decree, or demand of any court or other governmental regulatory authority.

7.11 BioDrain, as of the date hereof, possesses or has applied for all necessary trademarks, trade names, copyrights, patents, patent rights, licenses, permits and franchises to conduct its business as now operated, without any known conflict with the valid trademarks, trade names, copyrights, patents, license, permits and franchise rights of others.

7.12 BioDrain has good and marketable title to all of the assets listed on the most recent balance sheet provided to WREF (other than inventory and other assets sold in the ordinary course of business) free and clear of any encumbrance of any kind, except liens securing debt reflected on said balance sheet. All assets necessary for the continued operation of BioDrain's business as it is currently being conducted are owned by BioDrain or subject to valid leasehold interests.

7.13 BioDrain is not in default of any obligation, covenant, or condition contained in any bond, debenture, note or other evidence of indebtedness or any mortgage or collateral instrument securing the same.

7.14 BioDrain is current on all federal, state, and local taxes including, but not limited to income, payroll, real estate, and sales taxes and it has timely filed all federal, state and local tax returns.

7.15 No real property currently or previously owned or operated by BioDrain (collectively, the "Real Property") has been used by BioDrain or any other party, for the purpose of storing, disposal or treatment of any hazardous, toxic or dangerous substance, waste or material ("Hazardous Materials") in violation of any federal, state or local laws relating to pollution, protection of the environment or worker health and safety (collectively, the "Environmental Laws"). There has been no release or threatened release of Hazardous Materials on the Real Property by BioDrain or by any other party. BioDrain has not received any notice of any asserted present or past failure by BioDrain or by any other party to comply with any Environmental Laws or any rule or regulation adopted pursuant to such laws in connection with the Real Property.

BioDrain has not transported Hazardous Materials, or arranged for the transportation of Hazardous Materials to any disposal, treatment or storage site which is the subject of federal, state or local enforcement actions, other governmental or private investigations, or which may lead to claims against BioDrain for clean-up costs, remedial work or for damages.

There have not been and there are presently no underground storage tanks, as defined under federal or applicable state law, located on any real property currently owned, leased or otherwise controlled by BioDrain.



7.16 All financial statements provided by BioDrain, except as set forth in the notes thereto, have been prepared in accordance with generally accepted accounting principles applied on it basis consistent with the BioDrain's past practices, are complete and correct, in all material respects, and present fairly the financial condition of BioDrain at the dates of said statements and the results of its operations for the periods covered.

7.17 BioDrain has not violated, and is not violating, any laws, regulations or permits which apply to the ownership of its assets or the conduct of its business.

7.18 Since BioDrain's inception, there have been no written notices, citations or decisions by any governmental authority that my product produced, manufactured, marketed or distributed at any time by BioDrain ("Products") is defective or fails to meet any applicable federal, state, foreign or other laws, regulations, orders and other legal requirements. There have been no recalls, field notifications or seizures ordered or, to the knowledge of BioDrain, threatened by any governmental authority with respect to any Products.

**ARTICLE XIII**  
**WREF'S REPRESENTATIONS AND WARRANTIES**

8.1 WREF recognizes that an investment in BioDrain is speculative, involves a high degree of risk, that the purchase of the Shares is a long-term investment, that transferability and sale of the Shares is restricted in many ways, and that in the event of disposition of the Shares it could sustain a loss, either from an economic standpoint or as a result of income tax obligations or both. WREF can bear the economic risk of an investment in the Shares for an indefinite period of time and can afford a complete loss of such investment.

8.2 WREF has obtained, to the extent it deems necessary, its own professional advice with respect to the risks inherent in investment in BioDrain, the suitability of the investment in light of WREF's financial condition and investment needs, and legal, tax and accounting matters.

8.3 WREF has been given access to full and complete information regarding BioDrain, including the opportunity to ask questions of and receive answers from the officers of BioDrain, and has utilized such access to WREF's satisfaction. This section is not intended to limit the scope of the representations, warranties and covenants of BioDrain contained in this Agreement.

8.4 In connection with WREF's purchase of the Shares, it represents and warrants that it is its intention to acquire the Shares for its own account for investment purposes and not with a view to or for resale in connection with any distribution thereof.

8.5 WREF understands that neither the Shares nor any shares purchased by WREF in the future may be sold except pursuant to an effective registration statement under the Securities Act of 1933 (the "Act") and any applicable state securities laws, or if, in the

opinion of counsel acceptable to BioDrain, such registration is not required. WREF agrees that WREF will not sell or assign either the Shares or any shares it purchases in the future without registration under all applicable securities laws or appropriate exemptions therefrom.

8.6 WREF understands and acknowledges that the Shares and any shares purchased by WREF in the future have not been registered under the Act or under applicable state securities laws and are being issued pursuant to exemptions therefrom which depend upon WREF's investment intention. Further, WREF understands that it is the position of the Securities and Exchange Commission and the Minnesota securities division that the statutory basis for such exemption would not exist if the representations made herein merely mean that WREF's present intention is to hold either the Shares or any shares purchased in the future for a deferred sale, for a market rise, or for a sale if the market does not rise, if a market ever develops, or for a year or any other fixed period in the future.

8.7 WREF is not an accredited investor as that term is defined in the Act.

8.8 WREF is duly organized, in good standing and validly existing under the laws of Wisconsin and has the power and authority to carry on its business as now conducted, and to enter into, execute and deliver the Agreement and to perform its obligation hereunder.

8.9 The Agreement has been duly authorized by all necessary action on the part of WREF.

8.10 This Agreement is a valid, binding and legally enforceable obligation of WREF in accordance with its terms.

8.11 The execution, delivery and performance of this Agreement does not require the consent of approval of any governmental body or other regulatory authority and are not in contravention of or conflict with any law, rule, regulation, order, writ, judgment, decree, determination or award currently in effect.

8.12 The execution, delivery and performance of this Agreement is not in contravention or in conflict with any agreement, indenture, or undertaking to which WREF is a party or by which it or any of its property may be bound or affected, and does not cause any lien, charge or other encumbrance to be created or imposed upon any such property by reason thereof.

#### **ARTICLE IX NOTICES**

All notices, consents, requests, demands, and other communications hereunder shall be in writing and shall be deemed to have been duly given to a party hereto if mailed by certified mail, return receipt requested, at the addresses set forth below:

Wisconsin Rural Enterprise Fund  
1400 South River Street  
Spooner, WI 54801

BioDrain Medical, Inc.  
699 Minnetonka Highlands  
Orono, MN 55356-9728

## ARTICLE X INDEMNIFICATION

10.1 Subject to Section 11.4, WREF agrees to indemnify, reimburse, defend and hold harmless BioDrain from and against any and all costs, losses, liabilities, damages, lawsuits, deficiencies, claims and expenses, including without limitation, interest, penalties, costs of mitigation, reasonable attorneys' fees and all amounts paid in investigation defense or settlement of any of the foregoing less any undisputable net tax benefits recognized by the party seeking indemnification as a result of the matter which is the subject of the indemnification claim (collectively, the "Damages"), incurred in connection with, arising out of, resulting from or incident to:

A. any breach of or any inaccuracy in (or any alleged breach of or inaccuracy in) any representation or warranty made by WREF in this Agreement or any other document delivered by WREF at the Closing; or

B. any breach of or failure by WREF to perform any covenant or obligation of WREF set out or contemplated in this Agreement or any other document delivered by WREF at the Closing.

10.2 By BioDrain. Subject to Section 11.4, BioDrain agrees to indemnify, reimburse, defend and hold harmless WREF and its officers, directors, partners, employees, agents, successors, assigns and affiliates from and against any and all Damages incurred in connection with, arising out of, resulting from or incident to:

(a) any breach of or any inaccuracy in (or any alleged breach of or inaccuracy in) any representation or warranty made by BioDrain in this Agreement or any other document delivered by BioDrain at the Closing; or

(b) any breach of or failure by BioDrain to perform any covenant or obligation of BioDrain set out or contemplated in this Agreement or any other document delivered by BioDrain at the Closing.

10.3 Promptly after the receipt by any party hereto of notice of any claims or the commencement of any action or proceeding by a third party (i.e. a party who is not a party to this Agreement), such party hereto will, if a claim with respect thereto is to be made against an indemnifying party, pursuant to Section 11.1 or 11.2 hereof, give such

indemnifying party written notice of such claim or the commencement of such action or proceeding. In the case of a claim asserted by a third party, such indemnifying party shall have the right, at its option to compromise or defend, at its own expense and by its own counsel, any such matter involving the asserted liability of the party seeking such indemnification. If any indemnifying party shall undertake to compromise or defend any such asserted liability, it shall promptly notify the party seeking indemnification of its intention to do so, and the party seeking indemnification agrees to cooperate with the indemnifying party and its counsel in the compromise of, or defense against, any such asserted liability. In this event, the indemnified and indemnifying parties shall have the right to participate in the defense of such asserted liability and to approve any compromise or settlement, which approval shall not be unreasonably withheld.

10.4 Other Claims. After becoming aware of a claim for indemnification under this Article XII not involving any third party claim, the indemnified party shall give notice to the indemnifying party of such claim and the amount the indemnified party will be entitled to receive hereunder from the indemnifying party; provided, however, that the failure of the indemnified party to give notice shall not relieve the indemnifying party of its obligations under this Article XII except to the extent (if any) that the indemnifying party shall have been actually prejudiced thereby. If the indemnified party does not receive an objection in writing (a "Notice of Disagreement") to such indemnification claim within thirty (30) days of receiving notice thereof, the indemnified party shall be entitled to recover promptly from the indemnifying party the amount of such claim, and no later objection by the indemnifying party shall be permitted. If the indemnifying party agrees that it has an indemnification obligation but objects in a timely-delivered Notice of Disagreement that it is obligated to pay only a lesser amount, the indemnified party shall nevertheless be entitled to recover promptly from the indemnifying party the lesser amount, without prejudice to the indemnified party's claim for the difference.

**ARTICLE XI  
MISCELLANEOUS**

11.1 This Agreement shall be interpreted under the laws of the State of Wisconsin.

11.2 This agreement shall be binding upon and inure to the benefit of the respective parties and their successors and or assigns. Any assignment of the rights of BioDrain or WREF hereunder shall be subject to the written consent of the other party.

11.3 The representations, warranties, covenants and agreements set forth in this Agreement or in any writing delivered to WREF or BioDrain in connection with this Agreement will survive the Closing Date.

11.4 WREF and BioDrain will each pay all of their respective legal and other expenses incurred in the preparation of this Agreement and the performance of the terms and conditions hereof.

11.5 This Agreement, including the other documents referred to herein which form a part hereof, contains the entire understanding of the parties hereto with respect to the subject matter contained herein. There are no restrictions, promises, warranties, This Agreement supersedes all prior agreements and undertakings between the parties with respect to such subject matter.

11.6 No waiver and no modification or amendment of any provision of this Agreement shall be effective unless specifically made in writing and duly signed by the party to be bound thereby.

11.7 If any one or more covenants or agreements provided in this Agreement should be contrary to law, then such covenant or covenants, agreement or agreements shall be null and void and shall in no way affect the validity of the other provisions of this Agreement.

11.8 This Agreement may be executed in one or more counterparts, and shall become effective when one or more counterparts have been signed by each of the parties.

11.9 The rights, remedies, powers and privileges provided in this Agreement are cumulative and not exclusive and shall be in addition to any and all other rights, remedies, powers and privileges granted by law, rule, regulation or instrument.

WHEREFORE, the parties have entered into this Agreement on the date first noted above.

Wisconsin Rural Enterprise Fund, LLC

By

\_\_\_\_\_  
Carl Melchiors, President

(SEAL)

Attest



\_\_\_\_\_  
Myron Schuster, Secretary  
BioDrain Medical, Inc.

By

  
\_\_\_\_\_

(SEAL)

Attest

\_\_\_\_\_

## SUBSCRIPTION AGREEMENT

Subscription Agreement (together with the schedules and exhibits hereto, this "Agreement"), dated as of \_\_\_\_\_, 2008, by and between BioDrain Medical, Inc., a Minnesota corporation ("the Company"), and each of the Persons (as defined below) who has executed a signature page to this Agreement (each a "Purchaser," and together, the "Purchasers").

## WITNESSETH:

**WHEREAS**, the Company desires to issue and sell to the Purchasers, and the Purchasers desire to purchase from the Company, a minimum of \$0.8 million and a maximum of \$1.7 million of Units (as such term is defined below) as set forth below.

**NOW, THEREFORE**, in consideration of the premises and the mutual covenants and agreements hereinafter contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, intending to be legally bound, the parties hereto hereby agree as follows:

**1. Offer and Sale of Securities.**

1.1 The Offering. The Company is offering for sale of a minimum of 2,285,715 and a maximum of 4,857,144 units of Company securities. Each "unit" shall consist of one share of Company common stock, par value \$0.001 per share ("Share"), and a warrant to purchase one share of Company common stock at \$0.46 per share ("Warrant"). The Shares, Warrants, and Units offered hereby, and the underlying shares of Common Stock, are sometimes referred to herein as the "Securities". The Purchasers of the Units shall have the benefit of certain registration rights in respect of the Shares (including Shares underlying the Warrants or "Warrant Shares") on the terms and conditions of a Registration Rights Agreement, in the form of Exhibit B hereto (the "Registration Rights Agreement"). The Company is offering Units (the "Offering") for sale only to individuals, entities or groups, including, without limitation, corporations, limited liability companies, limited or general partnerships, joint ventures, associations, joint stock companies, trusts, unincorporated organizations, or governments or any agencies or political subdivisions thereof (each, a "Person") who are "accredited investors" (as defined herein). All subscription proceeds will be paid upon subscription to the account or accounts of Richardson & Patel LLP, the escrow agent utilized by the Company for receipt of funds (the "Escrow Agent").

1.2 Subscription. Subject to the terms and conditions hereinafter set forth in this Agreement, each Purchaser hereby offers to purchase, at a price of \$0.35 per share, the number of Units set forth beneath each such Purchaser's name on the signature pages of this Agreement, for an aggregate purchase price (the "Purchase Price") to be paid by such Purchaser in the amount set forth on the signature page beneath such Purchaser's name, to such account or accounts as the Company may specify by written notice to the Purchaser.

1.3 Subscription Procedures. To submit this Subscription, each Purchaser must deliver (i) this Agreement, including, without limitation, the annexed Purchaser Questionnaire, both duly completed and executed and (ii) an executed Registration Rights Agreement to the following address unless otherwise advised by the Company:

Each Purchaser shall, promptly following the delivery of the subscription documents as described above, deliver and pay the applicable purchase price in full for the Units being subscribed for by such Purchaser, in the amount of \$0.35 for each Unit, in U.S. dollars, in immediately available funds, in accordance with the payment instructions attached hereto as Exhibit C. The Company may accept or reject subscriptions, in whole or in part in its sole discretion. The Company shall notify each Purchaser of the portion, if any, of such Purchaser's subscription which has been accepted and, if any portion of a Purchaser's subscription is rejected, shall cause the Escrow Agent to refund to such Purchaser the purchase price paid by the Purchaser for the shares of Units with respect to which such Purchaser's subscription was rejected.

## **2. Closing.**

Upon acceptance of subscriptions for Units from a Purchaser, the Company may hold a closing of the purchase and sale of such Securities at any time after receipt of an aggregate amount of \$800,000 of Units has been sold by the Company (the "Initial Closing"). The Company may thereafter hold one or more additional closings (each closing, including the Initial Closing, a "Closing," and the final closing, the "Final Closing") upon the purchase and sale of additional Securities until an aggregate amount of up to \$1,700,000 (the "Maximum Offering") of Units has been sold by the Company. The date of the Initial Closing will be referred to as the "Initial Closing Date" and the date of the Final Closing is referred to as the "Final Closing Date." At the Closing with respect to the subscription by each Purchaser, to the extent the same is accepted by the Company, the Company will register in the name of each such Purchaser that number of Securities being purchased by such Purchaser in accordance with the information on the applicable signature page of this Agreement.

2.1 Escrow. Pending each Closing, all funds paid in respect of this Agreement with regard to such Closing shall be deposited in an escrow account (the "Escrow Account") maintained by the Escrow Agent pursuant to an Escrow Agreement among the Company, Purchaser and Escrow Agent, set forth as Exhibit D. The Escrow Account shall not be interest bearing. If the Company accepts subscriptions for the Securities at or prior to the Initial Closing Date or the Final Closing Date, as the case may be, then all subscription proceeds received for subscriptions accepted by the Company prior to such Closing Date shall be paid over to the Company at each Closing, net of any offering expenses, which shall be paid to the appropriate parties at each such Closing. If the Company shall not have received and accepted a Purchaser's subscription or if the Offering is terminated and no Closing occurs, then that subscription shall be void and all funds paid hereunder by such Purchaser, without deduction therefrom or interest thereon, shall be promptly returned to such Purchaser. If the Offering is terminated and no Closing occurs, then all subscriptions shall be void and all funds paid hereunder by Purchasers, without deduction therefrom or interest thereon, shall be promptly returned to the Purchasers. The Offering shall automatically terminate, all subscriptions shall be void and all funds shall be refunded to the Purchasers as provided in this Section 2.1 (which refunds shall be made on or before March 31, 2008), unless on or before March 31, 2008 all of the conditions set forth in Section 3 hereof have been satisfied and the Initial Closing shall have occurred.

2.2. Return of Funds. Each Purchaser hereby authorizes and directs the Escrow Agent to return or direct the return of any funds from the Escrow Account, without deduction therefrom or interest thereon, to the same account from which the funds were originally drawn, to the extent that such Purchaser's subscription is not accepted prior to the termination of the Offering.

### **3. Conditions to the Obligations of each Purchaser at Closing.**

The obligation of each Purchaser to purchase the Securities subscribed for by such Purchaser at the Closing is subject to the satisfaction on or prior to the Closing Date of the following conditions, each of which may be waived by the applicable Purchaser:

3.1 Representations and Warranties. The representations and warranties of the Company contained in this Agreement which are qualified as to materiality must be true and correct in all respects and the representations and warranties of the Company contained in this Agreement which are not qualified as to materiality must be true and correct in all material respects as of the Closing Date except to the extent that the representations and warranties relate to an earlier date in which case the representations and warranties must be true and correct as written or true and correct in all material respects, as the case may be, as of the earlier date.

3.2 Performance of Covenants. The Company shall have performed or complied in all material respects with all covenants and agreements required to be performed by it on or prior to the Closing pursuant to this Agreement.

3.3 No Injunctions; etc. No court or governmental injunction, order or decree prohibiting the purchase and sale of the Units will be in effect. There will not be in effect any law, rule or regulation prohibiting or restricting the sale or requiring any consent or approval of any Person that has not been obtained to issue and sell the Units to the Purchasers.

3.4 Closing Documents. At each Closing, the Company shall have delivered to the Escrow Agent the following:

- (a) a certificate evidencing the Units purchased by such Purchaser;
- (b) an Escrow Agreement duly executed by the Company; and
- (c) a Registration Rights Agreement duly executed by the Company.

3.5 Waivers and Consents. The Company will have obtained all consents and waivers necessary to (i) execute and deliver this Agreement and all related documents and agreements, and (ii) to issue and deliver the Units, and all such consents and waivers will be in full force and effect.

### **4. Conditions to the Obligations of the Company at Closing.**

The obligation of the Company to issue and sell the Units to any Purchaser is subject to the satisfaction on or prior to each Closing Date of the following conditions, each of which may be waived by the Company:

4.1 Receipt of Purchase Price. The Escrow Agent shall have received payment in full in immediately available funds in U.S. dollars of the Purchase Price for the Units with respect to which the Company has accepted the Subscription made by such Purchaser by means of this Agreement.

4.2 Representations and Warranties. The representations and warranties of the Purchaser contained in this Agreement which are qualified as to materiality must be true and correct in all respects and the representations and warranties of the Purchaser contained in this Agreement which are not qualified as to materiality must be true and correct in all material respects as of the applicable Closing Date.



4.3 Performance of Covenants. The Purchaser will have performed or complied in all material respects with all covenants and agreements required to be performed by the Purchasers on or prior to the Closing pursuant to this Agreement.

4.4 Purchaser Questionnaire. All of the information furnished by such Purchaser in the confidential purchaser questionnaire accompanying this Agreement (the "Purchaser Questionnaire") shall have been accurate and complete in all material respects.

4.5 No Injunctions. No court or governmental injunction, order or decree prohibiting the purchase or sale of the Units will be in effect.

4.6 Closing Document. The Purchasers will have delivered to the Company the Registration Rights Agreement duly executed by the Purchasers.

## **5. Representations and Warranties of each Purchaser.**

Each Purchaser, in order to induce the Company to perform this Agreement, hereby represents and warrants, severally and not jointly, as follows:

5.1 Due Authorization. Each Purchaser represents for such Purchaser to the Company that such Purchaser has full power and authority and has taken all action necessary to authorize such Purchaser to execute, deliver and perform such Purchaser's obligations under this Agreement. This Agreement is the legal, valid and binding obligation of such Purchaser in accordance with its terms.

5.2 Accredited Investor. Each Purchaser represents that such Purchaser is an Accredited Investor as that term is defined in Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act").

5.3 No Investment Advice. The Company has not made any other representations or warranties to such Purchaser other than as set forth herein or incorporated herein by reference with respect to the Company or rendered any investment advice.

5.4 Investment Experience. Each Purchaser represents that such Purchaser has not authorized any Person to act as a Purchaser Representative (as that term is defined in Regulation D of the General Rules and Regulations under the Securities Act) in connection with this transaction. Such Purchaser has such knowledge and experience in financial, investment and business matters that such Purchaser is capable of evaluating the merits and risks of the prospective investment in the securities of the Company. Such Purchaser has consulted with such independent legal counsel or other advisers as such Purchaser has deemed appropriate to assist such Purchaser in evaluating the proposed investment in the Company.

5.5 Adequate Means. Each Purchaser represents as to such Purchaser that such Purchaser (i) has adequate means of providing for such Purchaser's current financial needs and possible contingencies; and (ii) can afford (a) to hold unregistered securities for an indefinite period of time as required; and (b) sustain a complete loss of the entire amount of the subscription.

5.6 Access to Information. Each Purchaser represents that such Purchaser has been afforded the opportunity to ask questions of, and receive answers from the officers and/or directors of the Company acting on its behalf concerning the terms and conditions of this transaction and to obtain any additional information, to the extent that the Company possesses such information or can acquire it without unreasonable effort or expense, necessary to verify the accuracy of the information furnished; and

has had such opportunity to the extent such Purchaser considers it appropriate in order to permit such Purchaser to evaluate the merits and risks of an investment in the Company. It is understood that all documents, records and books pertaining to this investment have been made available for inspection, and that the books and records of the Company will be available upon reasonable notice for inspection by investors during reasonable business hours at its principal place of business. The foregoing shall in no way be deemed to limit the ability of each Purchaser to rely on the representations and warranties set forth herein or incorporated herein by reference.

5.7 No Endorsement. Each Purchaser further acknowledges that the offer and sale of the Securities has not been passed upon or the merits thereof endorsed or approved by any state or federal authorities.

5.8 Non-Registered Securities. Each Purchaser acknowledges that the offer and sale of the Securities have not been registered under the Securities Act or any state securities laws and the Securities and the underlying shares of Common Stock may be resold only if registered pursuant to the provisions thereunder or if an exemption from registration is available. Each Purchaser understands that the offer and sale of the Securities is intended to be exempt from registration under the Securities Act, based, in part, upon the representations, warranties and agreements of such Purchaser contained in this Agreement.

5.9 No Resale. Each Purchaser represents that the Units being subscribed for, and the securities underlying the subscription, are being acquired solely for the account of such Purchaser for such Purchaser's investment and not with a view to, or for resale in connection with, any distribution in any jurisdiction where such sale or distribution would be precluded. By such representation, such Purchaser means that no other Person has a beneficial interest in the Units or the Common Stock underlying such Units, and that no other Person has furnished or will furnish directly or indirectly, any part of or guarantee the payment of any part of the consideration to be paid by such Purchaser to the Company in connection therewith. Such Purchaser does not intend to dispose of all or any part of the Units or the Common Stock underlying such Units except in compliance with the provisions of the Securities Act and applicable state securities laws, and understands that the Units and the Common Stock underlying the Units are being offered pursuant to a specific exemption under the provisions of the Securities Act, which exemption(s) depends, among other things, upon the compliance with the provisions of the Securities Act.

5.10 ERISA-based Investment. If Purchaser is acquiring the Units through a qualified pension, profit-sharing, stock bonus, Keogh or 401(k) plan or other pension or retirement plan qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"), (such plans are referred to collectively as "Qualified Plans") then Purchaser represents that the Qualified Plan (i) provides for a segregated account for the investor-beneficiary and (ii) gives the investor-beneficiary the power to direct each plan investment to the extent of the investor's voluntary contributions plus the investor's share of vested employer contributions. In addition, Purchaser represents that (a) the Purchaser is aware of certain federal income tax considerations applicable to Qualified Plans and IRAs, and (b) the Purchaser has determined that an investment in Preferred Shares is not a prohibited transaction under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or the Code and has taken into account the requirements of prudence, diversification and any other applicable responsibilities imputed under ERISA or elsewhere.

5.11 Legend. Each Purchaser hereby acknowledges and agrees that the Company may insert the following or similar legend on the face of the certificates evidencing the Securities purchased by such Purchaser and the Warrant Shares issued upon the exercise thereof, as the case may be, if required in compliance with the Securities Act or state securities laws:

“These securities have not been registered under the Securities Act of 1933, as amended (the “Securities Act”), or any state securities laws and may not be sold or otherwise transferred or disposed of except pursuant to an effective registration statement under the Securities Act and any applicable state securities laws, or an opinion of counsel satisfactory to counsel to the issuer that an exemption from registration under the Securities Act and any applicable state securities laws is available.”

5.12 Broker’s or Finder’s Commissions. No finder, broker, agent, financial person or other intermediary has acted on behalf of any Purchaser in connection with the sale of the Units by the Company or the consummation of this Agreement or any of the transactions contemplated hereby.

Each Purchaser certifies that each of the foregoing representations and warranties by such Purchaser set forth in this Section 5 is true as of the date hereof and shall survive such date.

## **6. Representations and Warranties of the Company.**

The Company represents and warrants to the Purchasers as follows as of the Closing, each such representation and warranty being made subject to such disclosures as are made pursuant to this Agreement or any schedule or exhibit delivered in connection herewith at the Closing:

6.1 Organization, Good Standing and Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Minnesota. The Company has full corporate power and authority to own and hold its properties and to conduct its business. The Company is duly licensed or qualified to do business, and in good standing, in each jurisdiction in which the nature of its business requires licensing, qualification or good standing, except for any failure to be so licensed or qualified or in good standing that would not have a material adverse effect on the Company or its results of operations, assets and financial condition, taken as a whole, or on its ability to perform its obligations under this Agreement or to issue the Units (a “Material Adverse Effect”).

6.2 Capitalization. As of the Initial Closing, the authorized capital stock of the Company will consist of 20,000,000 shares of Common Stock, a par value of \$0.001 per share. Immediately prior to the Initial Closing, approximately 1,096,829 shares of Common Stock will be issued and outstanding. As of the Initial Closing, all the outstanding shares of Common Stock will have been duly authorized and validly issued and will be fully paid and nonassessable and free of preemptive rights created by or through the Company, and will have been issued in compliance with all federal and state securities laws, and will not have been issued in violation of any preemptive rights or similar rights to subscribe for or purchase securities. Other than as described in the Company’s Offering Memorandum dated on or about January 31, 2008 (the “Memorandum”), there are no options, warrants or other rights, convertible debt, agreements, arrangements or commitments of any character obligating the Company to issue or sell any shares of capital stock of or other equity interests in the Company. The Company is not obligated to retire, redeem, repurchase or otherwise reacquire any of its capital stock or other securities. There are no stockholders agreements, voting agreements or other similar agreements with respect to the Common Stock to which the Company is a party. Except as disclosed in or pursuant to this Agreement, the Company does not directly or indirectly own or have any investment in any of the capital stock of, or any other proprietary interest in, any Person. The Company has not adopted a stockholders rights plan, poison pill or similar arrangement.

6.3 Corporate Power, Authorization; Enforceability. The Company has full corporate power and authority to execute, deliver and enter into this Agreement, the Charter Amendment, the Escrow Agreement and the Registration Rights Agreement (collectively, the “Transaction Documents”) and to

consummate the transactions contemplated hereby and thereby. Except as contemplated by this Agreement, including the next two succeeding sentences, all action on the part of the Company, its directors or stockholders necessary for the authorization, execution, delivery and performance of the Transaction Documents by the Company, the authorization, sale, issuance and delivery of the Units contemplated hereby and the performance of the Company's obligations hereunder and thereunder has been taken. The Units to be purchased on the Closing Date and the shares of Common Stock issuable upon the exercise of the Warrants have been duly authorized and, when issued in accordance with this Agreement, will be validly issued, fully paid and nonassessable and will be free and clear of any mortgage, deed of trust, pledge, hypothecation, assignment, encumbrance, lien (statutory or other) or preference, priority, right or other security interest or preferential arrangement of any kind or nature whatsoever (collectively, "Liens") imposed by or through the Company other than restrictions imposed by this Agreement and the Registration Rights Agreement, as the case may be, and applicable securities laws. No preemptive or other rights to subscribe for or purchase equity securities of the Company exists with respect to the issuance and sale of the Units or the shares of Common Stock issuable upon exercise of the Warrants. The Transaction Documents have been duly executed and delivered by the Company, and constitute the legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general principles of equity relating to enforceability (regardless of whether considered in a proceeding at law or in equity).

#### 6.4 No Conflict; Governmental Consents.

(a) The execution and delivery by the Company of the Transaction Documents and the consummation of the transactions contemplated hereby and thereby will not (i) result in the violation of any provision of the Articles of Incorporation or By-laws or other organizational documents of the Company, (ii) result in any violation of any law, statute, rule, regulation, order, writ, injunction, judgment or decree of any court or Governmental Authority to or by which the Company is bound, or (iii) conflict with, or result in a breach or violation of, any of the terms or provisions of, or constitute (with due notice or lapse of time or both) a default under, any bond, debenture, note or other evidence of indebtedness, or any material lease, contract, indenture, mortgage, deed of trust, loan agreement, joint venture or other agreement or instrument to which the Company is a party or by which it or its property is bound, nor result in the creation or imposition of any Lien upon any of the properties or assets of the Company, except for, in the case of clauses (ii) and (iii) of this subsection 6.4(a), any violation, conflict, breach or default which would not reasonably be expected to have a Material Adverse Effect.

(b) No material consent, approval, license, permit, order or authorization of, or registration, declaration or filing with, any court, administrative agency or commission or other Governmental Authority or Person, and no lapse of any waiting period under any Requirements of Law, remains to be obtained (or lapsed) or is otherwise required to be obtained by the Company in connection with the authorization, execution and delivery of the Transaction Documents or the consummation of the transactions contemplated hereby or thereby, including, without limitation the issue and sale of the Units and the shares of Common Stock underlying such Units, except for any registration, notice or filing with (i) the Securities and Exchange Commission, (ii) the National Association of Securities Dealers, Inc. ("NASD"), or (iii) state blue sky or other securities regulatory authorities. For purposes of this Agreement, "Requirements of Law" means, as to any Person, any law, statute, treaty, rule, regulation, right, privilege, qualification, license or franchise or determination of an arbitrator or a court or other government of any nation, state, city, locality or other political subdivision thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing (each, a "Governmental Authority"), in each case applicable or binding upon such

Person or any of its property or to which such Person or any of its property is subject or pertaining to any or all of the transactions contemplated or referred to herein.

6.5 Litigation. Except as disclosed in or pursuant to this Agreement, there are no claims, actions, suits, investigations or proceedings pending or, to the Company's knowledge, threatened proceedings against the Company or its assets, at law or in equity, by or before any Governmental Authority, or by or on behalf of any third party, except for any claim, action, suit, investigation or proceeding which would not reasonably be expected to have a Material Adverse Effect. There are no claims, actions, suits, investigations or proceedings pending or, to the Company's knowledge, threatened proceedings against the Company contesting the right of the Company to use, sell, import, license, or make available to any Person any of the Company's products or services currently or previously sold, offered, licensed or made available to any Person or used by the Company or opposing or attempting to cancel any of the Company's Intellectual Property (as defined below) rights, except for any claim, action, suit, investigation or proceeding which would not reasonably be expected to have a Material Adverse Effect.

6.6 Compliance with Laws; No Default or Violation; Contracts. Except as disclosed in or pursuant to this Agreement, the Company is in compliance in all material respects with all Requirements of Law and all orders issued by any court or Governmental Authority against the Company. The Company has all material licenses, permits and approvals of any Governmental Authority (collectively, "Permits") that are necessary for the conduct of the business of the Company as currently conducted; (ii) such Permits are in full force and effect; and (iii) no violations are or have been recorded in respect of any Permit.

6.7 Insurance. The Company maintains and will continue to maintain insurance of the types and in the amounts that the Company reasonably believes is adequate for its business, including, but not limited to, insurance covering all real and personal property owned or leased by the Company against theft, damage, destruction, acts of vandalism and all other risks customarily insured against by similarly situated companies, all of which insurance is in full force and effect.

6.8 Environmental Matters. The Company is in compliance, in all material respects, with all applicable Environmental Laws. For purposes of the foregoing, "Environmental Laws" means federal, state, local and foreign laws, principles of common laws, civil laws, regulations, and codes, as well as orders, decrees, judgments or injunctions, issued, promulgated, approved or entered thereunder relating to pollution, protection of the environment or public health and safety.

6.9 Taxes. No Tax assessment against the Company has been heretofore proposed or, to the Company's knowledge, threatened by any Governmental Authority for which provision has not been made on its balance sheet.

No tax audit is currently in progress and there is no unassessed deficiency proposed or, to the Company's knowledge, threatened against the Company. The Company has no knowledge of any change in the rates or basis of assessment of any Tax (other than federal or state income tax), of the Company which would reasonably be expected to have a Material Adverse Effect. The Company has not agreed to or is required to make any adjustments under section 481 of the Code by reason of a change of accounting method or otherwise. None of the assets of the Company is required to be treated as being owned by any Person, other than the Company or any of its subsidiaries, pursuant to the "safe harbor" leasing provisions of Section 168(f)(8) of the Code. The Company is not a "United States real property holding corporation" (a "USRPHC") as that term is defined in Section 897(c)(2) of the Code and the regulations promulgated thereunder.

For purposes of this Agreement, “Code” means the Internal Revenue Code of 1986, as amended, and “Taxes” means any federal, state, provincial, county, local, foreign and other taxes (including, without limitation, income, profits, windfall profits, alternative minimum, accumulated earnings, personal holding company, capital stock, premium, estimated, excise, sales, use, occupancy, gross receipts, franchise, ad valorem, severance, capital levy, production, transfer, withholding, employment, unemployment compensation, payroll and property taxes, import duties and other governmental charges and assessments), whether or not measured in whole or in part by net income, and including deficiencies, interest, additions to tax or interest, and penalties with respect thereto, and including expenses associated with contesting any proposed adjustments related to any of the foregoing.

#### 6.10 Intellectual Property.

(a) “Intellectual Property” shall mean all of the following as they are necessary in connection with the business of the Company as presently conducted and as they exist in all jurisdictions throughout the world, in each case, to the extent owned by or licensed to the Company: (i) patents, patent applications and inventions, designs and improvements described and claimed therein, patentable inventions and other patent rights (including any divisions, continuations, continuations-in-part, reissues, reexaminations, or interferences thereof, whether or not patents are issued on any such applications and whether or not any such applications are modified, withdrawn, or resubmitted) (“Patents”); (ii) trademarks, service marks, trade dress, trade names, brand names, designs, logos, or corporate names, whether registered or unregistered, and all registrations and applications for registration thereof (“Trademarks”); (iii) copyrights and mask works, including all renewals and extensions thereof, copyright registrations and applications for registration thereof, and non-registered copyrights (“Copyrights”); (iv) trade secrets, inventions, know-how, process technology, databases, confidential business information, customer lists, technical data and other proprietary information and rights (“Trade Secrets”); (v) computer software programs, including, without limitation, all source code, object code, and documentation related thereto (“Software”); (vi) Internet addresses, domain names, web sites, web pages and similar rights and items (“Internet Assets”); and (vii) all licenses, sublicenses and other agreements or permissions including the right to receive royalties, or any other consideration related to the property described in (i)-(vi). The Intellectual Property contains all of the intellectual property necessary to operate the business of the Company as currently conducted.

(b) The Company owns (or otherwise has the right to use the Intellectual Property pursuant to a valid license, sublicense or other agreement), free and clear of all Liens, and has the unrestricted right (subject to any such license terms, if applicable) to use, sell, license, or sublicense all Intellectual Property.

(c) To the Company’s knowledge, all the Company’s Intellectual Property rights are valid and enforceable. The Company has taken reasonable actions to maintain and protect each item of Intellectual Property owned by the Company.

#### 6.11 Employee Benefit Plans.

(a) Neither the Company nor any entity which is or was under common control with the Company within the meaning of Section 414(b), (c), (m) or (o) of the Code maintains or contributes to, or has within the preceding six years maintained or contributed to, or may have any liability with respect to any employee benefit plan subject to Title IV of Employee Retirement Income Security Act of 1974, as amended (“ERISA”), or Section 412 of the Code or any “multiple employer plan” within the meaning of the Code or ERISA. Each employee benefit plan, arrangement, policy, program, agreement or commitment which the Company maintains, contributes to or may have any liability in respect to (each, a “Plan”) has been established and administered in all material respects in accordance with its terms, and

complies in form and in operation with the applicable requirements of ERISA, the Code and other applicable Requirements of Law. No claim with respect to the administration or the investment of the assets of any Plan (other than routine claims for benefits) is pending. No event has occurred in connection with which the Company or any Plan, directly or indirectly, could be subject to any material liability under ERISA, the Code or any other law, regulation or governmental order applicable to any Plan, or under any agreement, instrument, statute, rule of law or regulation pursuant to or under which the Company has agreed to indemnify any person against liability incurred under, or for a violation or failure to satisfy the requirement of, any such statute, regulation or order. The Company has no material liability, whether absolute or contingent, including any obligations under any Plan, with respect to any misclassification of any person as an independent contractor rather than as an employee.

(b) The Company does not have any obligations to provide or any direct or indirect liability, whether contingent or otherwise, with respect to the provision of health or death benefits to or in respect of any former employee, except as may be required pursuant to Section 4980B of the Code and the corresponding provisions of ERISA and the cost of which are fully paid by such former employees.

6.12 Investment Company. The Company is not an “investment company” or an “affiliated person” of, or “promoter” or “principal underwriter” for an investment company, within the meaning of the Investment Company Act of 1940, as amended.

6.13 Private Offerings. Assuming the truth of each Purchaser’s representations and acknowledgments contained in Section 5 hereof, neither the Company nor any Person acting on its behalf (other than the Purchasers, as to whom the Company makes no representations) has offered or sold the Units by means of any general solicitation or general advertising within the meaning of Rule 502(c) under the Securities Act. The Company has not sold Units to anyone other than the Purchasers.

6.14 Broker’s or Finder’s Commissions. Except as set forth in the Memorandum, no finder, broker, agent, financial person or other intermediary has acted on behalf of the Company in connection with the sale of the Units by the Company or the consummation of this Agreement or any of the transactions contemplated hereby. The Company has not had any direct or indirect contact with any other investment banking firm (or similar firm) with respect to the offer of the Units by the Company to the Purchasers or the Purchasers’ subscriptions for the Units.

6.15 Disclosure. The Transaction Documents do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which they were made, not misleading. The Company does not have any knowledge of any fact that has specific application to the Company (other than general economic or industry conditions) and that would reasonably be expected to have a Material Adverse Effect that has not been disclosed in or pursuant to the Transaction Documents.

The Company certifies that each of the foregoing representations and warranties by the Company set forth in this Section 6 are true as of the date hereof and shall survive such date as contemplated in Section 7.1.

## **7. Indemnification.**

7.1 The Company agrees to indemnify and hold harmless the Purchasers, their affiliates and each of their respective directors, officers, general and limited partners, principals, agents and attorneys (individually, a “Purchaser Indemnified Party” and collectively, the “Purchaser Indemnified Parties”) from and against any and all losses, claims, damages, Liabilities, costs (including reasonable attorneys’ fees) and expenses (collectively, “Losses”) to which any Purchaser Indemnified Party may become

subject, insofar as such Losses arise out of or result from (i) any breach of any representation or warranty made by the Company contained in or made pursuant to this Agreement, or (ii) the failure of the Company to fulfill any agreement or covenant contained in or made pursuant to this Agreement. All of the representations and warranties of the Company made herein shall survive the execution and delivery of this Agreement until the date that is one year after the Closing Date, except for (a) Sections 6.1 (Organization, Good Standing and Qualification), 6.2 (Capitalization), and 6.3 (Corporate Power, Authorization; Enforceability), which representations and warranties shall survive indefinitely (or if indefinite survival is not permitted by law, then for the maximum period permitted by applicable law), (b) Section 6.9 (Taxes), which representation and warranty shall survive until the later to occur of (i) the lapse of the statute of limitations with respect to the assessment of any tax to which such representation and warranty relates (including any extensions or waivers thereof) and (ii) sixty (60) days after the final administrative or judicial determination of the Taxes to which such representation and warranty relates, and no claim with respect to Section 6.9 may be asserted thereafter with the exception of claims arising out of any fact, circumstance, action or proceeding to which the party asserting such claim shall have given notice to the other parties to this Agreement prior to the termination of such period of reasonable belief that a tax liability will subsequently arise therefrom, and (c) Section 6.8 (Environmental Matters), which representation and warranty shall survive until the lapse of the applicable statute of limitations. Except as set forth herein, all of the covenants, agreements and obligations of the Company shall survive the Closing indefinitely (or if indefinite survival is not permitted by law, then for the maximum period permitted by applicable law).

7.2 Each Purchaser agrees, severally and not jointly, to indemnify and hold harmless the Company, its affiliates and each of their respective directors, officers, general and limited partners, principals, agents and attorneys (individually, a “Company Indemnified Party” and collectively, the “Company Indemnified Parties”) from and against any and all Losses to which any Company Indemnified Party may become subject, insofar as such Losses arise out of or result from (i) any breach of any representation or warranty made by such Purchaser contained in or made pursuant to this Agreement, or (ii) the failure of such Purchaser to fulfill any agreement or covenant contained in or made pursuant to this Agreement. All of the representations and warranties of each Purchaser made herein shall survive the execution and delivery of this Agreement until the date that is two years after the Closing Date. Except as set forth herein, all of the covenants, agreements and obligations of the Purchasers shall survive the Closing indefinitely (or if indefinite survival is not permitted by law, then for the maximum period permitted by applicable law).

7.3 Promptly after receipt by a Purchaser Indemnified Party or Company Indemnified Party (each an “Indemnified Party”) under Section 7.1 or 7.2 of notice of any claim as to which indemnity may be sought, including, without limitation, the commencement of any action or proceeding, the Indemnified Party will, if a claim in respect thereof may be made against the Company or the applicable Purchaser (as applicable, the “Indemnifying Party”) under this Section 7, promptly notify the Indemnifying Party in writing of the commencement thereof; provided that the failure of the Indemnified Party to so notify the Indemnifying Party will not relieve the Indemnifying Party from its obligations under this Section 7 unless, and only to the extent that, such omission results in the Indemnifying Party’s forfeiture of substantive rights or defenses or being materially prejudiced by the Indemnified Party’s failure to give such notice. In case any action or proceeding is brought against any Indemnified Party, and it notifies the Indemnifying Party of the commencement thereof, the Indemnifying Party shall be entitled to assume the defense thereof at its own expense, with counsel satisfactory to such Indemnified Party in its reasonable approval (which approval will not be withheld or delayed unreasonably); provided, however, that any Indemnified Party may, at its own expense, retain separate counsel to participate in such defense at its own expense. After notice from the Indemnifying Party to the Indemnified Party of its election to so assume the defense thereof, the Indemnifying Party will not be Liable to the Indemnified Party under this Section 7 for any legal or any other expenses subsequently incurred by the Indemnified Party in



connection with the defense thereof (other than reasonable costs of investigation) unless incurred at the written request of the Indemnifying Party. Notwithstanding the above, the Indemnified Party will have the right to employ counsel of its own choice in any action or proceeding (and be reimbursed by the Indemnifying Party for the reasonable fees and expenses of the counsel and other reasonable costs of the defense) if, in the written opinion of such Indemnified Party's counsel, representation of the Indemnified Party by the counsel retained by the Indemnifying Party would be inappropriate due to actual or potential differing interests or conflicts between the Indemnified Party and any other party represented by the counsel in the action; provided, however, that the Indemnifying Party will not in connection with any one action or proceeding or separate but substantially similar actions or proceedings arising out of the same general allegations, be Liable for the reasonable fees and expenses of more than one separate firm of attorneys at any time for all Indemnified Parties, except to the extent that local counsel, in addition to regular counsel, is required in order to effectively defend against the action or proceeding. An Indemnifying Party will not be Liable to any Indemnified Party for any settlement or entry of judgment concerning any action or proceeding effected without the consent of the Indemnifying Party, which consent shall not be unreasonably withheld. The Indemnifying Party agrees that it will not, without the prior written consent of the Indemnified Party, settle, compromise or consent to the entry of any judgment in any pending or threatened claim relating to the matters contemplated hereby (if any Indemnified Party is a party thereto or has been actually threatened to be made a party thereto) unless such settlement, compromise or consent includes an unconditional release of each Indemnified Party from all liability arising or that may arise out of such claim. The rights accorded to an Indemnified Party hereunder shall be in addition to any rights that any Indemnified Party may have at common law, by separate agreement or otherwise; provided, however, that notwithstanding the foregoing or anything to the contrary contained in this Agreement, (a) nothing in this Section 7 shall restrict or limit any rights that any Indemnified Party may have to seek equitable relief and (b) this Section 7 shall be the sole and exclusive remedy for any breach of the Company's or any Purchaser's representations and warranties contained in Section 5 or 6 except with respect to claims arising out of fraud or willful misconduct.

## **8. Covenants.**

8.1 Use of Proceeds. The Company shall use the proceeds from this Offering for product development, market expansion, regulatory affairs as referenced in the Offering Summary. The remainder of the proceeds shall be used for working capital and general corporate purposes.

8.2 Conduct of the Company's Business. Except as contemplated by this Agreement, during the period from the date hereof to the Closing Date, the Company will conduct its business and operations solely in the ordinary course of business consistent with past practice and use reasonable commercial efforts to keep available the services of its officers and employees and preserve its current relationships with customers, suppliers, licensors, creditors and others having business dealings with it.

8.3 Reasonable Best Efforts. Subject to the terms and conditions of this Agreement, each of the parties hereto will use its reasonable best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate the transactions contemplated by this Agreement at the earliest practicable date.

## **9. FOR RESIDENTS OF ALL STATES**

NEITHER THE SECURITIES OFFERED HEREBY OR THE SECURITIES INTO WHICH SUCH SECURITIES MAY BE CONVERTED HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND ARE BEING OFFERED AND SOLD IN RELIANCE ON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF SAID ACT AND SUCH LAWS. THE SECURITIES ARE

SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER SAID ACT AND SUCH LAWS PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

**10. No Waiver.**

Notwithstanding any of the representations, warranties, acknowledgments or agreements made herein by the Purchasers, the Purchasers do not thereby or in any manner waive any rights granted to the Purchasers under federal or state securities laws.

**11. Miscellaneous.**

11.1 Notices. Any notice or other communication given hereunder by any party hereto to any other party hereto shall be in writing and delivered personally or by facsimile transmission or sent by registered or certified mail or by any express mail or overnight courier service, postage or fees prepaid:

If to the Company, to:

BioDrain Medical, Inc.  
699 Minnetonka Highlands Lane  
Orono, Minnesota 55356-9728  
Attention: Kevin Davidson  
Facsimile No.: (952) 476-2361

If to the Purchasers, to each Purchaser at such Purchaser's name, address and facsimile number set forth on the signature page to this Agreement

Any notice that is delivered personally or by facsimile transmission in the manner provided herein shall be deemed to have been duly given to the party to whom it is directed upon actual receipt by such party or its agent. Any notice that is addressed and mailed or sent by courier in the manner herein provided shall be conclusively presumed to have been duly given to the party to which it is addressed at the close of business, local time of the recipient, on the fourth business day after the day it is so placed in the mail or, if earlier, the time of actual receipt.

11.2 Successors and Assigns. This Agreement will be binding upon and inure to the benefit of the parties hereto and to their respective heirs, legal representatives, successors and assigns; provided, that no party may assign this Agreement or its rights hereunder without the prior written consent of the Company, in the case of an assignment by any Purchaser, or the Purchasers in the case of an assignment by the Company, such consent not to be unreasonably withheld or delayed (however, the Company shall under no circumstances be obligated to consent to an assignment by a Purchaser to a purchaser of Securities); provided, further, that a Purchaser may assign this Agreement to its affiliates without consent; provided that any transfer of Securities or shares of Common Stock underlying such Securities must be in compliance with the Transaction Documents and all applicable law.

11.3 Entire Agreement. This Agreement sets forth the entire agreement and understanding among the parties as to the subject matter hereof and merges and supersedes all prior discussions, agreements and understandings of any and every nature among them; provided, that any confidentiality agreement between the Company and any Purchaser shall remain in effect. This Agreement may be

amended only by mutual written agreement of the Company and a majority in interest of the Purchasers, and the Company may take any action herein prohibited or omit to take any action herein required to be performed by it, and any breach of any covenant, agreement, warranty or representation may be waived, only if the Company has obtained the written consent or waiver of the Purchasers purchasing a majority of the Units offered hereby.

11.4 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota with respect to contracts made and to be fully performed therein, without regard to the conflicts of laws principles thereof. The parties hereto hereby agree that any suit or proceeding arising under this Agreement, or in connection with the consummation of the transactions contemplated hereby, shall be brought solely in a federal or state court located in the State of Minnesota. By its execution hereof, both the Company and the Purchasers hereby consent and irrevocably submit to the in personam jurisdiction of the federal and state courts located in the State of Minnesota and agree that any process in any suit or proceeding commenced in such courts under this Agreement may be served upon it personally or by certified or registered mail, return receipt requested, or by Federal Express or other courier service, with the same force and effect as if personally served upon the applicable party in Minnesota and in the city or county in which such other court is located. The parties hereto each waive any claim that any such jurisdiction is not a convenient forum for any such suit or proceeding and any defense of lack of in personam jurisdiction with respect thereto.

11.5 Severability. The holding of any provision of this Agreement to be invalid or unenforceable by a court of competent jurisdiction will not affect any other provision of this Agreement, which will remain in full force and effect. If any provision of this Agreement is declared by a court of competent jurisdiction to be invalid, illegal or incapable of being enforced in whole or in part, the provision will be interpreted so as to remain enforceable to the maximum extent permissible consistent with applicable law and the remaining conditions and provisions or portions thereof will nevertheless remain in full force and effect and enforceable to the extent they are valid, legal and enforceable, and no provisions will be deemed dependent upon any other covenant or provision unless so expressed herein.

11.6 No Waiver. A waiver by either party of a breach of any provision of this Agreement will not operate, or be construed, as a waiver of any subsequent breach by that same party.

11.7 Further Assurances. The parties agree to execute and deliver all further documents, agreements and instruments and take further action as may be necessary or appropriate to carry out the purposes and intent of this Agreement.

11.8 Counterparts. This Agreement may be executed in two or more counterparts, each of which will be deemed an original, but all of which will together constitute the same instrument.

11.9 No Third Party Beneficiaries. Nothing in this Agreement creates in any Person not a party to this Agreement any legal or equitable right, remedy or claim under this Agreement, and this Agreement is for the exclusive benefit of the parties hereto. The parties expressly recognize that this Agreement is not intended to create a partnership, joint venture or other similar arrangement between any of the parties or their respective affiliates.

11.10 Headings. The headings in this Agreement are solely for convenience of reference and shall be given no effect in the construction or interpretation of this Agreement.

11.11 Publicity Restrictions. Except as may be required by applicable Requirements of Law, none of the parties hereto shall issue a publicity release or public announcement or otherwise make any disclosure concerning this Agreement, the transactions contemplated hereby without prior approval by the

other party hereto; provided that each Purchaser may disclose on its worldwide web pages and its offering materials, if any, the name of the Company, the name of the Chief Executive Officer of the Company, a brief description of the business of the Company consistent with the Company's press releases or other public statements, the Company's logo and the aggregate amount of such Purchaser's investment in the Company. If any announcement is required by applicable law or the rules of any securities exchange or market on which shares of Common Stock are traded to be made by any party hereto, prior to making such announcement such party will deliver a draft of such announcement to the other parties and shall give the other parties reasonable opportunity to comment thereon. The parties agree to attribute and otherwise indicate ownership of the other parties' trademarks and logos.

11.12 Certification. Each Purchaser certifies that such Purchaser has read this entire Agreement and that every statement on such Purchaser's part made and set forth herein is true and complete.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the undersigned has executed this Subscription Agreement on the date his or her signature has been subscribed and sworn to below.

The shares of Common Stock and the common stock purchase warrants are to be issued in:

\_\_\_\_ individual name

\_\_\_\_ tenants in the entirety

\_\_\_\_ corporation (an officer must sign)

\_\_\_\_ partnership (all general partners must sign)

\_\_\_\_ trust

\_\_\_\_ limited liability company

Federal Tax ID: \_\_\_\_\_  
(Social Security Number for individuals)

State of Residence: \_\_\_\_\_

\_\_\_\_\_  
Print Name of Purchaser

Subscription price paid herewith:  
\$ \_\_\_\_\_

\_\_\_\_\_ shares of Units subscribed for (being \$0.35 divided by the Subscription Price listed above)

\_\_\_\_\_  
Print Name of Joint Purchaser  
(if applicable)

\_\_\_\_\_  
Signature of Purchaser

\_\_\_\_\_  
Signature of Joint Purchaser

Address of Purchaser:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Facsimile No.: \_\_\_\_\_

(with a copy to:)

Facsimile No.: \_\_\_\_\_

Accepted as of the \_\_\_\_ day of \_\_\_\_\_, 2008 as to \_\_\_\_\_ Units at price accepted being \$ \_\_\_\_\_, being \$0.35 x the number of shares of Units as to which this Subscription is accepted:

BioDrain Medical, Inc.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
\_\_\_\_\_

Checks should be sent to our escrow agent, "Richardson & Patel LLP – BioDrain Trust Account", to:

Mona Buchanan, Office Manager  
Richardson & Patel LLP, Escrow Agent  
10900 Wilshire Boulevard, Suite 500  
Los Angeles, California 90024

In lieu of a check, you may also invest by sending a wire transfer to:

COMERICA BANK OF CALIFORNIA  
WESTWOOD OFFICE  
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LOS ANGELES, CALIF. 90024  
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BENEFICIARY: RICHARDSON & PATEL LLP  
CLIENT TRUST ACCT.  
  
RE: BIODRAIN TRUST ACCOUNT

## REGISTRATION RIGHTS AGREEMENT

Registration Rights Agreement, dated as of \_\_\_\_\_, 2008 (this "Agreement"), by and among BioDrain Medical, Inc., a Minnesota corporation (the "Company"), and the Purchasers (as defined below).

## WITNESSETH

WHEREAS, the Company is offering (the "Offering") an aggregate of up to 4,857,144 units of its securities, each unit consisting of one share of its Common Stock, par value \$.001 per share (the "Shares") and one warrant to purchase one share of common stock at \$0.46 per share, (the securities offered in the Offering being sometimes hereinafter referred to as the "Securities");

WHEREAS, the Company desires to issue and sell to the persons listed on Schedule A, attached hereto (each a "Purchaser," and collectively, the "Purchasers"), the Securities as set forth in the Subscription Agreement entered into or to be entered into by and between the Company and the Purchasers (the "Subscription Agreement");

WHEREAS, it is a condition precedent to the consummation of the transactions contemplated by the Subscription Agreement that the Company provide for the rights set forth in this Agreement; and

WHEREAS, certain terms used in this Agreement that are not defined in context are defined in Section 3 hereof, or if not defined therein, then as defined in the Subscription Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants and agreements hereinafter contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, intending to be legally bound, the parties hereto hereby agree as follows:

**1. Registration Rights.**

1.1 **Required Registration.** The Company shall file with the SEC a registration statement on Form SB-2 or successor form or another form selected by the Company that is available to it under the Securities Act which conforms with all applicable rules and regulations (the "Required Registration Statement") with respect to all the Shares and Warrant Shares issued ("Registrable Securities") beneficially owned by the Purchasers to permit the offer and re-sale from time to time of such Registrable Securities in accordance with the methods of distribution provided by the Purchasers within **120** days of the Closing ("Filing Date"). The Company shall use its reasonable best efforts to cause the Required Registration Statement to become effective as promptly as reasonably practicable thereafter. If the Required Registration Statement is not filed by the Filing Date or is not declared effective by the Commission within **180** days of the Closing (any such failure or breach being referred to as an "Event", and the date on which such Event occurs being referred to as "Event Date"), then on the Event Date and on the date of each successive 30 days period thereof until the Event is cured, the Company shall pay to each investor an amount in Company's Common Stock, as liquidated damages and not as a penalty, equal to 2.0% of the purchase price of such investor's Units; provided, however that the liquidated damages may not exceed 16% of such purchase price. The liquidated damages pursuant to the terms hereof shall apply on a pro-rata basis for any portion of a month prior to the cure of an Event. Notwithstanding the preceding provisions of this Section 1.1, if the Company timely files a Registration Statement, which, as may be relevant, complies with the provisions of Section 1.1 of this Agreement and the SEC raises issues relating to the applicability of Rule 415 to the number of shares sought to be registered under such Registration Statement, the provisions regarding the liquidated damages shall not apply with respect to the Registrable Securities which the SEC deems to exceed the number of shares eligible for the registration under Rule 415 as filed by the Company.

1.2 The Company shall use its reasonable best efforts to keep such Required Registration Statement continuously effective (the “Effective Period”) until the first anniversary of the effective date of the Required Registration Statement plus whatever period of time as shall equal any period, if any, during the Effective Period in which the Company was not current with its reporting requirements under the Exchange Act.

### 1.3 Piggyback Registrations.

(a) Right to Piggyback. Whenever the Company proposes to register any of its securities under the Securities Act and the registration form to be used may be used for the registration of Registrable Securities, whether or not for sale for its own account, the Company will give prompt written notice (but in no event less than thirty (30) days before the anticipated filing date) to all holders of Registrable Securities, and such notice shall describe the proposed registration and distribution and offer to all holders of Registrable Securities the opportunity to register the number of Registrable Securities as each such holder may request. Subject to paragraph (d) of this Section 1.3, the Company will include in such registration all Registrable Securities with respect to which the Company has received written requests for inclusion therein within five (5) days after the holders’ receipt of the Company’s notice (a “Piggyback Registration”).

(b) Reasonable Efforts. The Company shall use all reasonable efforts to cause the managing underwriter or underwriters of a proposed underwritten offering to permit the Registrable Securities requested to be included in a Piggyback Registration to be included on the same terms and conditions as any similar securities of the Company or any other security holder included therein and to permit the sale or other disposition of such Registrable Securities in accordance with the intended method of distribution thereof.

(c) Withdrawal. Any holder of Registrable Securities electing to participate in a Piggyback Registration (a “Designated Holder”) shall have the right to withdraw its request for inclusion of its Registrable Securities in any Registration Statement pursuant to this Section 1.3 by giving written notice to the Company of its request to withdraw. The Company may withdraw a Piggyback Registration at any time.

(d) Priority in Registrations. If a Piggyback Registration is an underwritten primary registration on behalf of the Company or a secondary registration on behalf of a security holder exercising demand registration rights (the “Initiating Holder”), and the managing underwriters advise the Company in writing (with a copy to each party hereto requesting registration of Registrable Securities) that in their opinion the number of Registrable Securities requested to be included in such registration exceeds the number which can be sold in such offering without materially and adversely affecting the marketability of such primary or secondary offering (the “Offering Quantity”), then the Company will include in such registration securities in the following priority:

i. First, the Company will include the securities the Company proposes to sell and, if applicable, the securities the Initiating Holder proposes to sell.

ii. Second, the Company will include all Registrable Securities requested to be included by any Designated Holder, and if the number of such Designated Holders’ securities requested to be included exceeds the Offering Quantity, then the Company shall include only each such requesting Designated Holders’ pro rata share of the shares available for registration by the Purchaser, based on the amount of securities held by such Designated Holder.



#### 1.4 Holdback Agreements.

(a) To the extent not inconsistent with applicable law, in the case of an underwritten public offering, the underwriters managing such underwritten offering of the Company's securities, each holder of Registrable Securities will not effect any public sale or distribution (other than those included in the registration) of any securities of the Company, or any securities, options or rights convertible into or exchangeable or exercisable for such securities during the seven days prior to and the 60-day period beginning on the effective date of the Registration Statement relating to such offering, unless (in the case of an underwritten public offering) the managing underwriters otherwise agree to a shorter period of time. Notwithstanding the foregoing, no Designated Holder shall be required to enter into any such "lock up" agreement unless and until all of the Company's executive officers and directors execute identical "lock up" agreements and the Company uses commercially reasonable efforts to cause each holder of more than 10% of its outstanding capital stock to execute identical "lock up" agreements. Neither the Company nor the underwriter shall amend, terminate or waive a "lock up" agreement unless each "lock up" agreement with a Designated Holder is also amended or waived in a similar manner or terminated, as the case may be.

(b) The Company shall have the right at any time to require that the Designated Holders of Registrable Securities suspend further open market offers and sales of Registrable Securities pursuant to a Registration Statement filed hereunder whenever in the reasonable judgment of the Company after consultation with counsel there is or may be in existence a Changing Event (as defined herein). The Company will give the Designated Holders notice of any such suspension and will use all reasonable best efforts to minimize the length of such suspension.

1.5 Registration Procedures. Whenever any Registrable Securities are required to be registered pursuant to this Agreement, the Company will use reasonable best efforts to effect the registration and the sale of such Registrable Securities in accordance with the intended methods of disposition thereof, and pursuant thereto the Company will as expeditiously as possible:

(a) prepare and file with the SEC on any form, if not so otherwise provided for, for which the Company qualifies, as soon as practicable after the end of the period within which requests for registration may be given to the Company, a Registration Statement with respect to the offer and sale of such Registrable Securities and thereafter use reasonable best efforts to cause such Registration Statement to become effective and remain effective until the completion of the distribution contemplated thereby or the required time period under this Agreement, whichever is shorter (and before filing such Registration Statement, the Company will furnish to the counsel selected by the holders of a majority of the Registrable Securities initiating such Registration Statement copies of all such documents proposed to be filed); provided, however, that the Company may postpone for not more than ninety (90) calendar days the filing or effectiveness of the Required Registration Statement if the Board of Directors, in its good faith judgment, determines that such registration could reasonably be expected to have a material adverse effect on the Company and its stockholders including, but not limited to, any proposal or plan by the Company to engage in any acquisition of assets (other than in the ordinary course of business) or any merger, consolidation, tender offer or similar transaction then under consideration by delivering written notice to the holders of Registrable Securities of its determination to postpone such Registration Statement; provided, further, that (i) the Company shall not disclose any information that could be deemed material non-public information to any holder of Registrable Securities included in a Registration Statement that is subject to such postponement, (ii) in no event may the Company postpone a filing requested hereunder more than twice; provided, that such postponements must be at least three (3) months apart; provided, further, that the Company may delay the effectiveness of the Required Registration Statement if the SEC rules and regulations prohibit the Required Registration Statement from being declared effective because its financial statements are stale at a time when its fiscal year has ended or it

has made an acquisition reportable under the applicable item under Form 8-K or any other similar situation until the earliest time in which the SEC would allow the Required Registration Statement to be declared effective (provided that the Company shall use its reasonable best efforts to cure any such situation as soon as possible so that the Registration Statement can be declared effective at the earliest possible time);

(b) prepare and file with the SEC such amendments and supplements to such Registration Statement and the prospectus used in connection therewith as may be necessary to keep such Registration Statement effective for a period provided for in the applicable Section above or, if such Registration Statement relates to an underwritten offering, such period as in the opinion of counsel for the underwriters a prospectus is required by law to be delivered in connection with sales of Registrable Securities by an underwriter or dealer or (ii) such shorter period as will terminate when all of the securities covered by such Registration Statement have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof set forth in such Registration Statement (but in any event not before the expiration of any longer period required under the Securities Act), and to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such Registration Statement until such time as all of such securities have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof set forth in such Registration Statement;

(c) furnish to each seller of Registrable Securities, prior to filing a Registration Statement, such number of copies of such Registration Statement, each amendment and supplement thereto, the prospectus included in such Registration Statement (including each preliminary prospectus) and such other documents as such seller may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such seller;

(d) register or qualify such Registrable Securities under such state securities or blue sky laws of such jurisdictions as any seller reasonably requests and do any and all other acts and things which may be reasonably necessary or advisable to enable such seller to consummate the disposition in such jurisdictions of the Registrable Securities owned by such seller and to keep each such registration or qualification (or exemption therefrom) effective during the period which the Registration Statement is required to be kept effective (provided, that the Company will not be required to (i) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this subparagraph, (ii) subject itself to taxation in any such jurisdiction or (iii) consent to general service of process in any such jurisdiction);

(e) notify each seller of such Registrable Securities, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event (a "Changing Event") as a result of which, the prospectus included in such Registration Statement contains an untrue statement of a material fact or omits any fact necessary to make the statements therein not misleading in the light of the circumstances under which they were made, and, at the request of any such seller, the Company will as soon as possible prepare and furnish to such seller (a "Correction Event") a reasonable number of copies of a supplement or amendment to such prospectus so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus will not contain an untrue statement of a material fact or omit to state any fact necessary to make the statements therein not misleading in the light of the circumstances under which they were made;

(f) cause all such Registrable Securities to be listed on each securities exchange on which similar securities issued by the Company are then listed and, if not so listed, to be listed on a national stock exchange, The Nasdaq Stock Market or the Nasdaq SmallCap trading system;

(g) provide a transfer agent and registrar for all such Registrable Securities not later than the effective date of such Registration Statement;

(h) before filing a Registration Statement or prospectus or any amendments or supplements thereto, the Company shall provide counsel selected by the Designated Holders holding a majority of the Registrable Securities being registered in such registration (“Holder’s Counsel”) and any other Inspector (as defined below) with an adequate and appropriate opportunity to review and comment on such Registration Statement and each prospectus included therein (and each amendment or supplement thereto) to be filed with the SEC, subject to such documents being under the Company’s control, and the Company shall notify the Holders’ Counsel and each seller of Registrable Securities of any stop order issued or threatened by the SEC;

(i) otherwise comply with all applicable rules and regulations of the SEC, and make available to its security holders, as soon as reasonably practicable, an earnings statement covering the period of at least twelve months beginning with the first day of the Company’s first full calendar quarter after the effective date of the Registration Statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder;

(j) in the event of the issuance of any stop order suspending the effectiveness of a Registration Statement, or of any order suspending or preventing the use of any related prospectus or suspending the qualification of any securities included in such Registration Statement for sale in any jurisdiction, the Company will use its reasonable best efforts promptly to obtain the withdrawal of such order;

(k) subject to execution and delivery of mutually satisfactory confidentiality agreements, make available at reasonable times for inspection by any seller of Registrable Securities, any managing underwriter participating in any disposition of such Registrable Securities pursuant to a Registration Statement, Holders’ Counsel and any attorney, accountant or other agent retained by any managing underwriter (each, an “Inspector” and collectively, the “Inspectors”), all financial and other records, pertinent corporate documents and properties of the Company and its subsidiaries (collectively, the “Records”) as shall be reasonably necessary to enable them to exercise their due diligence responsibility, and cause the Company’s and its subsidiaries’ officers, directors and employees, and the independent public accountants of the Company, to supply all information reasonably requested by any such Inspector in connection with such Registration Statement;

(l) subject to execution and delivery of mutually satisfactory confidentiality agreements, keep Holders’ Counsel advised as to the initiation and progress of any registration hereunder including, but not limited to, providing Holders’ Counsel with all correspondence with the SEC;

(m) cooperate with each seller of Registrable Securities and each underwriter participating in the disposition of such Registrable Securities and their respective counsel in connection with any filings required to be made with the NASD; and

(n) take all other steps reasonably necessary to effect the registration of the Registrable Securities contemplated hereby.

**1.6 Registration Expenses.** All expenses incident to the Company’s performance of or compliance with this Agreement including, without limitation, all registration and filing fees, fees and expenses of compliance with securities or blue sky laws, printing expenses, messenger and delivery expenses, and fees and disbursements of counsel for the Company and all independent certified public accountants, underwriters (excluding discounts and commissions, which will be paid by the sellers of

Registrable Securities) and other Persons retained by the Company will be borne by the Company, and the Company will pay its internal expenses (including, without limitation, all salaries and expenses of its Employees performing legal or accounting duties), the expense of any annual audit or quarterly review, the expense of any liability insurance and the expenses and fees for listing the securities to be registered on each securities exchange or trading system on which similar securities issued by the Company are then listed or qualified for trading. The Company shall have no obligation to pay any underwriting discounts or commissions attributable to the sale of Registrable Securities and any of the expenses incurred by the Designated Holders, such costs to be borne by such Designated Holder or Holders.

#### 1.7 Indemnification.

(a) The Company agrees to indemnify and hold harmless, to the fullest extent permitted by law, each holder of Registrable Securities and its general or limited partners, officers, directors, members, managers, employees, advisors, representatives, agents and Affiliates (collectively, the "Representatives") from and against any reasonable loss, claim, damage, liability, a single reasonable attorney's fees, cost or expense and costs and expenses of investigating and defending any such claim (collectively, the "Losses") and any action in respect thereof to which such holder of Registrable Securities or its Representatives may become subject under the Securities Act or otherwise, insofar as such Losses (or actions or proceedings, whether commenced or threatened, in respect thereto) arise out of or are based upon (i) any untrue or alleged untrue statement of a material fact contained in any Registration Statement at the time it is declared effective, prospectus or preliminary prospectus (but only preliminary prospectuses approved for distribution by the Company) or any amendment or supplement thereto or (ii) any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that the Company shall not be liable to any such holder or other indemnitee in any such case to the extent that any such Loss (or action or proceeding, whether commenced or threatened, in respect thereof) arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission, made in such Registration Statement, any such prospectus or preliminary prospectus or any amendment or supplement thereto, in reliance upon, and in conformity with, written information prepared and furnished to the Company by such holder of Registrable Securities or its Representatives expressly for use therein or by failure of such holder of Registrable Securities to deliver a copy of the Registration Statement or prospectus or any amendments or supplements thereto after the Company has furnished such holder of Registrable Securities with a sufficient number of copies of the same. In connection with an underwritten offering, the Company will indemnify such underwriters, their officers and directors and each Person who controls such underwriters (within the meaning of the Securities Act) to the same extent as provided above with respect to the indemnification of the holders of Registrable Securities.

(b) In connection with any Registration Statement in which the holders of Registrable Securities are participating pursuant to this Agreement, the holders of Registrable Securities will furnish to the Company in writing such information as the Company reasonably requests for use in connection with any such Registration Statement or prospectus and, to the fullest extent permitted by law, each such holder of Registrable Securities will, severally but not jointly, indemnify and hold harmless the Company and its Representatives from and against any Losses and any action in respect thereof to which the Company and its Representatives may become subject under the Securities Act or otherwise, insofar as such Losses (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon (i) the purchase or sale of Registrable Securities during a suspension as set forth in herein after written receipt of notice of such suspension, (ii) by failure of such holder of Registrable Securities to deliver a copy of the Registration Statement or prospectus or any amendments or supplements thereto after the Company has furnished such holder of Registrable Securities with a sufficient number of copies of the same, (iii) any untrue or alleged untrue statement of a material fact contained in the Registration Statement, prospectus or preliminary prospectus or any amendment or

supplement thereto, or (iv) any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein not misleading, but, with respect to clauses (iii) and (iv) above, only to the extent that such untrue statement or omission is made in such Registration Statement, any such prospectus or preliminary prospectus or any amendment or supplement thereto, in reliance upon and in conformity with written information prepared and furnished to the Company by such holder of Registrable Securities expressly for use therein; provided, however, that such holder of Registrable Securities shall not be liable in any such case to the extent that prior to the filing of any such Registration Statement or prospectus or amendment or supplement thereto, such holder of Registrable Securities has furnished in writing to the Company information expressly for use in such Registration Statement or prospectus or any amendment or supplement thereto which corrected or made not misleading information previously furnished to the Company; provided, further, however, that the obligation to indemnify will be individual to each such holder of Registrable Securities and will be limited to the net amount of proceeds received by such holder of Registrable Securities from the sale of Registrable Securities pursuant to such Registration Statement. In connection with an underwritten offering, each holder of Registrable Securities participating in such offering will indemnify such underwriters, their officers and directors and each Person who controls such underwriters (within the meaning of the Securities Act) to the same extent as provided above with respect to the indemnification of the Company.

(c) Promptly after receipt by any Person entitled to indemnification pursuant to Section 1.6(a) or 1.6(b) (an "Indemnified Party") of notice of any claim or the commencement of any action, the Indemnified Party shall, if a claim in respect thereof is to be made against the Person against whom such indemnity may be sought (an "Indemnifying Party"), promptly notify the Indemnifying Party in writing of the claim or the commencement of such action; provided, that the failure to notify the Indemnifying Party shall not relieve the Indemnifying Party from any liability which it may have to an Indemnified Party otherwise than under Section 1.6(a) or 1.6(b) except to the extent of any actual prejudice resulting therefrom. If any such claim or action shall be brought against an Indemnified Party, and it shall notify the Indemnifying Party thereof, the Indemnifying Party shall be entitled to participate therein, and, to the extent that it wishes, jointly with any other similarly notified Indemnifying Party, to assume the defense thereof with counsel reasonably satisfactory to the Indemnified Party. After notice from the Indemnifying Party to the Indemnified Party of its election to assume the defense of such claim or action, the Indemnifying Party shall not be liable to the Indemnified Party for any legal or other expenses subsequently incurred by the Indemnified Party in connection with the defense thereof other than reasonable costs of investigation; provided, that the Indemnified Party shall have the right to employ separate counsel to represent the Indemnified Party and its Representatives who may be subject to liability arising out of any claim in respect of which indemnity may be sought by the Indemnified Party against the Indemnifying Party, but the fees and expenses of such counsel shall be for the account of such Indemnified Party unless (i) the Indemnifying Party and the Indemnified Party shall have mutually agreed to the retention of such counsel or (ii) in the written opinion of counsel to such Indemnified Party, representation of both parties by the same counsel would be inappropriate due to actual or potential conflicts of interest between them, it being understood, however, that the Indemnifying Party shall not, in connection with any one such claim or action or separate but substantially similar or related claims or actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the fees and expenses of more than one separate firm of attorneys (together with appropriate local counsel) at any time for all Indemnified Parties. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any claim or pending or threatened proceeding in respect of which the Indemnified Party is or could have been a party and indemnity could have been sought hereunder by such Indemnified Party, unless such settlement includes an unconditional release of such Indemnified Party from all liability arising out of such claim or proceeding other than the payment of monetary damages by the Indemnifying Party on behalf of the Indemnified Party. Whether or not the defense of any claim or action is assumed by the Indemnifying Party, such Indemnifying Party will not be

subject to any liability for any settlement made without its consent, which consent will not be unreasonably withheld or delayed.

(d) If the indemnification provided for in this Section 1.5 is unavailable to the Indemnified Parties in respect of any Losses referred to herein, then each Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such Losses in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the holders of the Registrable Securities on the other from the offering of the Registrable Securities, or if such allocation is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits but also the relative fault of the Company on the one hand and the holders of the Registrable Securities on the other in connection with the statements or omissions which resulted in such Losses, as well as any other relevant equitable considerations. The relative fault of the Company on the one hand and of each holder of the Registrable Securities on the other shall be determined by reference to, among other things, whether any action taken, including any untrue or alleged untrue statement of a material fact, or the omission or alleged omission to state a material fact relates to information supplied by such party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the holders of the Registrable Securities agree that it would not be just and equitable if contribution pursuant to this Section 1.6(d) were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an Indemnified Party as a result of the Losses referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any such action or claim. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation. Each holder's obligations to contribute pursuant to this Section 1.6 is several in the proportion that the proceeds of the offering received by such holder of the Registrable Securities bears to the total proceeds of the offering received by all the holders of the Registrable Securities and not joint.

#### 1.8 Participation in Underwritten Registrations.

(a) No Person may participate in any registration hereunder which is underwritten unless such Person (i) agrees to sell such Person's securities on the basis provided in any underwriting arrangements approved by the Person or Persons entitled hereunder to approve such arrangements (including, without limitation, pursuant to the terms of any over-allotment or "green shoe" option requested by the managing underwriter(s), provided, that each holder of Registrable Securities shall not be required to sell more than the number of Registrable Securities that such holder has requested the Company to include in any registration) and (ii) completes and executes all questionnaires, powers of attorney, custody agreements, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements and this Agreement.

(b) Each Person that is participating in any registration hereunder agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in Section 1.5(e) above, such Person will forthwith discontinue the disposition of its Registrable Securities pursuant to the Registration Statement until such Person's receipt of the copies of a supplemented or amended prospectus as contemplated by such Section 1.5(e).

1.9 Current Public Information. The Company covenants that it will file all reports required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations adopted by

the SEC thereunder, and will use reasonable best efforts to take such further action as the Purchaser may reasonably request, all to the extent required to enable the holders of Registrable Securities to sell Registrable Securities pursuant to Rule 144 or Rule 144A adopted by the SEC under the Securities Act or any similar rule or regulation hereafter adopted by the SEC. The Company shall, upon the request of a Designated Holder, deliver to such Designated Holder a written statement as to whether it has complied with such requirements.

## **2. Transfers of Certain Rights.**

2.1 Transfer. The rights granted to the Purchaser under this Agreement may be assigned or transferred without the prior written consent of the Company to any permitted transferee of such Purchaser's Registrable Securities, subject only to the provisions of Section 2.2 below; provided, however, that any assignee or transferee shall have the right for inclusion in any effective Registration Statement as a "selling shareholder" only upon the filing of a post-effective amendment by the Company which the Company shall file at its discretion.

2.2 Transferees. Any transferee to whom rights under this Agreement are permitted to be transferred shall, as a condition to such transfer, deliver to the Company a written instrument by which such transferee agrees to be bound by the obligations imposed upon the Purchaser under this Agreement to the same extent as if such transferee were a Purchaser hereunder.

## **3. Certain Definitions.** The following capitalized terms shall have the meanings ascribed to them below:

"Affiliate" means any Person that directly or indirectly controls, or is under common control with, or is controlled by such Person. As used in this definition, "control" (including with its correlative meanings, "controlled by" and "under common control with") shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise).

"Common Stock" means the common stock of the Company.

"Employees" means any current, former, or retired employee, office consultant, advisor, independent contractor, agent, officer or director of the Company.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

"Person" means any individual, company, partnership, firm, joint venture, association, joint-stock company, trust, unincorporated organization, governmental body or other entity.

"Registrable Securities" means, subject to the immediately following sentence, (i) shares of Common Stock issued or issuable upon the conversion of shares of Common Stock (including Warrant Shares) acquired from the Company pursuant to the Subscription Agreement, and (ii) any securities issued or issuable directly or indirectly with respect to the securities referred to in clause (i) by way of stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization. As to any particular shares of Common Stock constituting Registrable Securities, such shares of Common Stock will cease to be Registrable Securities when they (x) have been effectively registered under the Securities Act and disposed of in accordance with a Registration Statement covering them, (y) have been sold to the public pursuant to Rule 144 (or by similar provision under the Securities Act), or (z) are eligible for resale under Rule 144 (or by similar

provision under the Securities Act) without any limitation on the amount of securities that may be sold under paragraph (e) thereof.

“Registration Statement” means any registration statement of the Company filed under the Securities Act which covers any of the Registrable Securities pursuant to the provisions of this Agreement, including the prospectus, amendments and supplements to such registration statement, including post-effective amendments, all exhibits and all material incorporated by reference in such registration statement.

“SEC” means the United States Securities and Exchange Commission or any other federal agency at the time administering the Securities Act.

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder.

#### **4. Miscellaneous.**

4.1 Recapitalizations, Exchanges, etc. The provisions of this Agreement shall apply to the full extent set forth herein with respect to (i) the Securities, (ii) any and all securities into which the Securities are converted, exchanged or substituted in any recapitalization or other capital reorganization by the Company and (iii) any and all equity securities of the Company or any successor or assign of the Company (whether by merger, consolidation, sale of assets or otherwise) which may be issued in respect of, in conversion of, in exchange for or in substitution of, the Securities and shall be appropriately adjusted for any stock dividends, splits, reverse splits, combinations, recapitalizations and the like occurring after the date hereof. The Company shall cause any successor, assign or issuer of securities that are Registrable Securities (whether by merger, consolidation, sale of assets or otherwise) to enter into a new registration rights agreement with the Designated Holders on terms substantially the same as this Agreement as a condition of any such transaction.

4.2 No Inconsistent Agreements. The Company has not and shall not enter into any agreement with respect to its securities that is inconsistent with the rights granted to the Purchasers in this Agreement or grant any additional registration rights to any Person or with respect to any securities which are not Registrable Securities which are prior in right to or inconsistent with the rights granted in this Agreement. The granting of demand registration rights or pari passu piggyback registration rights shall be deemed not to be inconsistent with the rights granted to Purchasers in this Agreement.

4.3 Amendments and Waivers. The provisions of this Agreement may be amended and the Company may take action herein prohibited, or omit to perform any act herein required to be performed by it, if, but only if, the Company has obtained the written consent of holders of at least a majority of the Registrable Securities then in existence.

4.4 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

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



4.6 Notices. All notices, requests and other communications to any party hereunder shall be in writing (including telecopy, telex or similar writing) and shall be deemed given or made as of the date delivered, if delivered personally or by telecopy (provided that delivery by telecopy shall be followed by delivery of an additional copy personally, by mail or overnight courier), one day after being delivered by overnight courier or three days after being mailed by registered or certified mail (postage prepaid, return receipt requested), to the parties at the following addresses (or to such other address or telex or telecopy number as a party may have specified by notice given to the other party pursuant to this provision):

If to the Company, to:

BioDrain Medical, Inc.  
699 Minnetonka Highlands Lane  
Orono, Minnesota 55356-9728  
Facsimile: (952) 476-2361  
Attention: Kevin Davidson

With a copy to:

Richardson & Patel LLP  
10900 Wilshire Blvd., Suite 500  
Los Angeles, California 90024  
Facsimile: (310) 208-1154  
Attention: Ryan S. Hong, Esq.

If to the Purchaser, to:

The address or facsimile number of each Purchaser as recorded in the stockholders records of the Company.

4.7 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota, without regard to the conflicts of laws rules or provisions.

4.8 Forum; Service of Process. Any legal suit, action or proceeding brought by any party or any of its affiliates arising out of or based upon this Agreement shall be instituted in any federal or state court in Minneapolis or St. Paul, Minnesota and each party waives any objection which it may now or hereafter have to the laying of venue or any such proceeding, and irrevocably submits to the jurisdiction of such courts in any such suit, action or proceeding.

4.9 Captions. The captions, headings and arrangements used in this Agreement are for convenience only and do not in any way limit or amplify the terms and provisions hereof.

4.10 No Prejudice. The terms of this Agreement shall not be construed in favor of or against any party on account of its participation in the preparation hereof.

4.11 Words in Singular and Plural Form. Words used in the singular form in this Agreement shall be deemed to import the plural, and vice versa, as the sense may require.

4.12 Successors and Assigns; Third Party Beneficiaries. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors, permitted assigns, executors, administrators and heirs.

4.13 Entire Agreement. This Agreement sets forth the entire agreement and understanding between the parties as to the subject matter hereof and merges and supersedes all prior discussions, agreements and understandings of any and every nature among them.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Registration Rights Agreement to be duly executed as of the date and year first written above.

Biodrain Medical, Inc.

By:

\_\_\_\_\_  
Name: Kevin Davidson  
Title: Chief Executive Officer

PURCHASER:

\_\_\_\_\_  
Print Name of Purchaser

Purchaser is a(n):

\_\_\_\_\_ individual

\_\_\_\_\_ tenants in the entirety

\_\_\_\_\_ corporation (an officer must sign)

\_\_\_\_\_ partnership (all general partners must sign)

\_\_\_\_\_ trust

\_\_\_\_\_ limited liability company

\_\_\_\_\_  
Print Name of Joint Purchaser  
(if applicable)

\_\_\_\_\_  
Signature of Purchaser

\_\_\_\_\_  
Signature of Joint Purchaser (if applicable)

## ESCROW AGREEMENT

THIS ESCROW AGREEMENT (this "Agreement") is made as of \_\_\_\_\_, 2008, by and among BioDrain Medical, Inc., a corporation incorporated under the laws of Minnesota (the "Company"), the Purchasers signatory hereto and set forth on Schedule A (each a "Purchaser" and together the "Purchasers"), Richardson & Patel LLP, with an address at 10900 Wilshire Boulevard, Suite 500, Los Angeles, California 90024 (the "Escrow Agent"). Capitalized terms used but not defined herein shall have the meanings set forth in the Subscription Agreement referred to in the first recital.

## WITNESSETH:

WHEREAS, the Purchasers will be purchasing from the Company, at least \$800,000 and at most \$1,700,000, in the aggregate, of the Common Stock and Warrants on one or more Closing Dates as set forth in the Subscription Agreement (the "Subscription Agreement") dated the date hereof between the Purchasers and the Company, which securities will be issued under the terms contained herein, in the Subscription Agreement, and in the Registration Rights Agreement between the Purchasers and the Company dated the date hereof (the "Registration Rights Agreement"); and

WHEREAS, it is intended that the purchase of the securities be consummated in accordance with the requirements set forth in Regulation D promulgated under the Securities Act of 1933, as amended; and

WHEREAS, the Company and the Purchasers have requested that the Escrow Agent hold the Purchase Price in escrow until the Escrow Agent has received the Transaction Documents (as defined below) at each Closing;

NOW, THEREFORE, in consideration of the covenants and mutual promises contained herein and other good and valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged and intending to be legally bound hereby, the parties agree as follows:

ARTICLE 1  
TERMS OF THE ESCROW

1.1. The parties hereby agree to establish an escrow account with the Escrow Agent whereby the Escrow Agent shall hold the funds for the purchase of at least \$800,000 and up to \$1,700,000, in the aggregate, of Common Stock and Warrants as contemplated by the Subscription Agreement. The amount of subscription funds for the initial closing shall be at least \$800,000. The amount of subscription funds for subsequent closings shall be at the discretion of the Company.

1.2. Upon the Escrow Agent's receipt of the aggregate Purchase Price for the applicable Closing into its master escrow account, together with executed counterparts of this Agreement and the Subscription Agreement and the Release Notice (a form of which is attached hereto as Exhibit A) it shall telephonically advise the Company, or the Company's designated attorney or agent, of the amount of funds it has received into its master escrow account.

1.3. Wire transfers to the Escrow Agent shall be made as follows:

RICHARDSON & PATEL LLP  
CLIENT TRUST ACCT.

BANK NAME: COMERICA BANK OF CALIFORNIA  
WESTWOOD OFFICE  
10900 WILSHIRE BLVD.  
LOS ANGELES, CALIF. 90024  
PHONE NUMBER: 800-888-3595  
ABA NUMBER: 121137522  
ACCT. NUMBER: 1891937581

BENEFICIARY: RICHARDSON & PATEL LLP  
CLIENT TRUST ACCT.

Re: BIODRAIN TRUST ACCOUNT

1.4 The Company, promptly following being advised by the Escrow Agent that the Escrow Agent has received the Purchase Price for the applicable Closing along with facsimile copies of or actual counterpart signature pages of the Subscription Agreement, the Registration Rights Agreement, and this Agreement (collectively, "Transaction Documents") from each Purchaser, shall deliver to the Escrow Agent the certificates representing the certificates evidencing the Securities to be issued to each Purchaser at the Closing together with:

- (a) the Company's executed counterpart of the Subscription Agreement;
- (b) the Company's executed counterpart of the Registration Rights Agreement; and
- (c) the Company's original executed counterpart of this Escrow Agreement.

1.5 In the event that the foregoing items are not in the Escrow Agent's possession within twenty (20) Trading Days of the Escrow Agent, then each Purchaser shall have the right to demand the return of their portion of the Purchase Price and any accrued interest of their portion of the Purchase Price, if any (it being understood that Escrow Agent has no obligation to place the funds into an interest-bearing account).

1.6 Once the Escrow Agent receives the documents and funds set forth in Section 1.3 and Section 1.4, it shall (a) disburse amounts owed to Richardson & Patel LLP for legal fees incurred by Company and at the Company's direction, pay any other expenses incurred by the Company, and (b) wire the balance of the funds to the Company's account listed in Section 1.7 below.

1.7 Wire transfers to the Company shall be made as follows:

Bank: Citizens Independent Bank  
Routing Number: 091016566  
Beneficiary: BioDrain Medical, Inc.  
Account Number: 0169466

Once the funds (as set forth above) have been sent per the Company's instructions, the Escrow Agent shall then arrange to have the Common Stock and Warrants, the Subscription Agreement,

the Registration Rights Agreement, and the Escrow Agreement delivered to the appropriate parties within ten (10) Business Days of the receipt of the Release Notice.

## ARTICLE II

### MISCELLANEOUS

2.1 No waiver or any breach of any covenant or provision herein contained shall be deemed a waiver of any preceding or succeeding breach thereof, or of any other covenant or provision herein contained. No extension of time for performance of any obligation or act shall be deemed an extension of the time for performance of any other obligation or act.

2.2 All notices or other communications required or permitted hereunder shall be in writing, and shall be sent as set forth in the Subscription Agreement.

2.3 This Escrow Agreement shall be binding upon and shall inure to the benefit of the permitted successors and permitted assigns of the parties hereto.

2.4 This Escrow Agreement is the final expression of, and contains the entire agreement between, the parties with respect to the subject matter hereof and supersedes all prior understandings with respect thereto. This Escrow Agreement may not be modified, changed, supplemented, or terminated, nor may any obligations hereunder be waived, except by written instrument signed by the parties to be charged or by its agent duly authorized in writing or as otherwise expressly permitted herein.

2.5 Whenever required by the context of this Escrow Agreement, the singular shall include the plural and the masculine shall include the feminine. This Escrow Agreement shall not be construed as if it had been prepared by one of the parties, but rather as if all parties had prepared the same.

2.6 The parties hereto expressly agree that this Escrow Agreement shall be governed by, interpreted under and construed and enforced in accordance with the laws of the State of California. Any action to enforce, arising out of, or relating in any way to, any provisions of this Escrow Agreement shall only be brought in a state or Federal court sitting in the City of Los Angeles.

2.7 The Escrow Agent's duties hereunder may be altered, amended, modified, or revoked only by a writing signed by the Company, each Purchaser, and the Escrow Agent.

2.8 The Escrow Agent shall be obligated only for the performance of such duties as are specifically set forth herein and may rely and shall be protected in relying or refraining from acting on any instrument reasonably believed by the Escrow Agent to be genuine and to have been signed or presented by the proper party or parties. The Escrow Agent shall not be personally liable for any act the Escrow Agent may do or omit to do hereunder as the Escrow Agent while acting in good faith and in the absence of gross negligence, fraud and willful misconduct, and any act done or omitted by the Escrow Agent pursuant to the advice of the Escrow Agent's attorneys-at-law shall be conclusive evidence of such good faith, in the absence of gross negligence, fraud, and willful misconduct.

2.9 The Escrow Agent is hereby expressly authorized to disregard any and all warnings given by any of the parties hereto or by any other person or corporation, excepting only orders or process of courts of law and is hereby expressly authorized to comply with and obey orders, judgments, or decrees of any court. In case the Escrow Agent obeys or complies with any such order, judgment, or decree, the Escrow Agent shall not be liable to any of the parties hereto or to any other person, firm, or

corporation by reason of such decree being subsequently reversed, modified, annulled, set aside, vacated, or found to have been entered without jurisdiction.

2.10 The Escrow Agent shall not be liable in any respect on account of the identity, authorization, or rights of the parties executing or delivering or purporting to execute or deliver the Subscription Agreement or any documents or papers deposited or called for thereunder in the absence of gross negligence, fraud, and willful misconduct.

2.11 The Escrow Agent shall be entitled to employ such legal counsel and other experts as the Escrow Agent may deem necessary properly to advise the Escrow Agent in connection with the Escrow Agent's duties hereunder, may rely upon the advice of such counsel, and may pay such counsel reasonable compensation; provided that the costs of such compensation shall be borne by the Escrow Agent. **The Escrow Agent has acted as legal counsel for the Company, and may continue to act as legal counsel for the Company from time to time, notwithstanding its duties as the Escrow Agent hereunder. The Purchasers and all other parties to this Agreement consent to the Escrow Agent in such capacity as legal counsel for the Company and waives any claim that such representation represents a conflict of interest on the part of the Escrow Agent. The Purchasers understand that the Company and the Escrow Agent are relying explicitly on the foregoing provision in entering into this Escrow Agreement.**

2.12 The Escrow Agent's responsibilities as escrow agent hereunder shall terminate if the Escrow Agent shall resign by giving written notice to the Company and the Purchasers. In the event of any such resignation, the Purchasers and the Company shall appoint a successor Escrow Agent, and the Escrow Agent shall deliver to such successor Escrow Agent any escrow funds and other documents held by the Escrow Agent.

2.13 If the Escrow Agent reasonably requires other or further instruments in connection with this Escrow Agreement or obligations in respect hereto, the necessary parties hereto shall join in furnishing such instruments.

2.14 It is understood and agreed that should any dispute arise with respect to the delivery and/or ownership or right of possession of the documents or the escrow funds held by the Escrow Agent hereunder, the Escrow Agent is authorized and directed in the Escrow Agent's sole discretion (1) to retain in the Escrow Agent's possession without liability to anyone all or any part of said documents or the escrow funds until such disputes shall have been settled either by mutual written agreement of the parties concerned by a final order, decree, or judgment or a court of competent jurisdiction after the time for appeal has expired and no appeal has been perfected, but the Escrow Agent shall be under no duty whatsoever to institute or defend any such proceedings or (2) to deliver the escrow funds and any other property and documents held by the Escrow Agent hereunder to a state or Federal court having competent subject matter jurisdiction and located in the City of Los Angeles in accordance with the applicable procedure therefore.

2.15 The Company and each Purchaser agree jointly and severally to indemnify and hold harmless the Escrow Agent and its partners, employees, agents, and representatives from any and all claims, liabilities, costs, or expenses in any way arising from or relating to the duties or performance of the Escrow Agent hereunder or the transactions contemplated hereby or by the Subscription Agreement other than any such claim, liability, cost, or expense to the extent the same shall have been determined by final, unappealable judgment of a court of competent jurisdiction to have resulted from the gross negligence, fraud, or willful misconduct of the Escrow Agent.

\*\*\*\*\*

**BIODRAIN MEDICAL, INC.**

By:

\_\_\_\_\_  
Name: Kevin Davidson  
Title: Chief Executive Officer

ESCROW AGENT:

**RICHARDSON & PATEL LLP**

By:

\_\_\_\_\_  
Name:  
\_\_\_\_\_  
Title: Partner

Purchaser Name:

\_\_\_\_\_  
By: \_\_\_\_\_  
Name:  
Title:



**RELEASE NOTICE**

The UNDERSIGNED, pursuant to the Escrow Agreement, dated as of \_\_\_\_\_, 2008, among BioDrain Medical, Inc., the Purchaser signatory, and Richardson & Patel LLP, as Escrow Agent (the "Escrow Agreement"; capitalized terms used herein and not defined shall have the meaning ascribed to such terms in the Escrow Agreement), hereby notifies the Escrow Agent that each of the conditions precedent to the purchase and sale of the Securities set forth in the Subscription Agreement have been satisfied.

The Purchaser has received and has had ample opportunity to review the Company's audited financial statements for the 12-month period ended December 31, 2006 and 2005 and the Company's unaudited financial statements for the six month period ended June 30, 2007 and hereby reaffirms the subscription to purchase the Securities.

The Purchaser hereby confirms that all of the applicable representations and warranties contained in the Subscription Agreement remain true and correct and authorizes the release by the Escrow Agent of the funds and documents to be released at the Closing as described in the Escrow Agreement. The Purchaser reaffirms the purchase of the Securities.

IN WITNESS WHEREOF, the undersigned have caused this Release Notice to be duly executed and delivered as of this \_\_\_ day of \_\_\_\_\_, 2008.

**PURCHASER:**

\_\_\_\_\_  
(Print name of Purchaser)

By: \_\_\_\_\_

Name:

Title:

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## FORM OF WARRANT

NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL, IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

## BIODRAIN MEDICAL, INC.

## WARRANT TO PURCHASE COMMON STOCK

Warrant No.: [ ]

Date of Issuance: \_\_\_\_\_, 2007 ("Issuance Date")

Warrant Shares: This Warrant shall be exercisable for \_\_\_\_\_ shares of Common Stock with the exact number of shares determined as follows:

Number of Units purchased under the Subscription Agreement dated \_\_\_\_\_, 2007 multiplied by 100%.

BIODRAIN MEDICAL, INC., a Minnesota corporation (the "**Company**"), hereby certifies that, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, [NAME OF BUYER], the registered holder hereof or its permitted assigns (the "**Holder**"), is entitled, subject to the terms set forth below, to purchase from the Company, at the Exercise Price (as defined below) then in effect, upon surrender of this Warrant to Purchase Common Stock (including any Warrants to Purchase Common Stock issued in exchange, transfer or replacement hereof, the "**Warrant**"), at any time or times on or after the date hereof, but not after 5:00 p.m., Pacific time, on the Expiration Date (as defined below), the number of validly issued, fully paid nonassessable shares of Common Stock (as defined below) determined in accordance with Section 1(a) below (the "**Warrant Shares**"). Except as otherwise defined herein, capitalized terms in this Warrant shall have the meanings set forth in Section 15. This Warrant is one of a series of warrants to purchase Common Stock (the "**Warrants**") issued pursuant to Section 1 of that certain Subscription Agreement, dated as of \_\_\_\_\_, 2007 (the "**Subscription Date**"), by and among the Company and the investors (the "**Buyers**") referred to therein (the "**Subscription Agreement**").

COMMON STOCK WARRANT – BIODRAIN MEDICAL, INC.

## 1. EXERCISE OF WARRANT.

(a) Warrant Shares. This Warrant shall be exercisable for the number of shares of Common Stock of the Company as set forth in the formula on the cover page of this Warrant (“**Warrant Shares**”).

(b) Mechanics of Exercise. Subject to the terms and conditions hereof (including, without limitation, the limitations set forth in Section 1(g)), this Warrant may be exercised by the Holder on any day on or after the date hereof, in whole or in part, by (i) delivery of a written notice, in the form attached hereto as Exhibit A (the “**Exercise Notice**”), of the Holder’s election to exercise this Warrant and (ii) (A) payment to the Company of an amount equal to the Exercise Price multiplied by the number of Warrant Shares as to which this Warrant is being exercised (the “**Aggregate Exercise Price**”) in cash or wire transfer of immediately available funds or (B) by notifying the Company that this Warrant is being exercised in a Cashless Exercise pursuant to and subject to the conditions set forth in Section 1(d); provided, however, that this Warrant may not be exercised in a Cashless Exercise during the first year of the Warrant or if the Warrant Shares have been registered under the Act (as defined below). The Holder shall not be required to deliver the original Warrant in order to effect an exercise hereunder. Execution and delivery of the Exercise Notice with respect to less than all of the Warrant Shares shall have the same effect as cancellation of the original Warrant and issuance of a new Warrant evidencing the right to purchase the remaining number of Warrant Shares. On or before the first Business Day following the date on which the Company has received each of the Exercise Notice and the Aggregate Exercise Price (or notice of a Cashless Exercise) (the “**Exercise Delivery Documents**”), the Company shall transmit by facsimile an acknowledgment of confirmation of receipt of the Exercise Delivery Documents to the Holder and the Company’s transfer agent (the “**Transfer Agent**”). On or before the third Business Day following the date on which the Company has received all of the Exercise Delivery Documents (the “**Share Delivery Date**”), the Company shall issue and dispatch by overnight courier to the address as specified in the Exercise Notice, a certificate, registered in the Company’s share register in the name of the Holder or its designee, for the number of shares of Common Stock to which the Holder is entitled pursuant to such exercise. Upon delivery of the Exercise Notice and Aggregate Exercise Price referred to in clause (ii)(A) above or notification to the Company of a Cashless Exercise referred to in Section 1(d), the Holder shall be deemed for all corporate purposes to have become the holder of record of the Warrant Shares with respect to which this Warrant has been exercised, irrespective of the date of delivery of the certificates evidencing such Warrant Shares. If this Warrant is submitted in connection with any exercise pursuant to this Section 1(b) and the number of Warrant Shares represented by this Warrant submitted for exercise is greater than the number of Warrant Shares being acquired upon an exercise, then the Company shall as soon as practicable and in no event later than three Business Days after any exercise and at its own expense, issue a new Warrant (in accordance with Section 7(d)) representing the right to purchase the number of Warrant Shares purchasable immediately prior to such exercise under this Warrant, less the number of Warrant Shares with respect to which this Warrant is exercised. No fractional shares of Common Stock are to be issued upon the exercise of this Warrant, but rather the number of shares of Common Stock to be issued shall be rounded up to the nearest whole number. The Company shall pay any and all taxes which may be payable with respect to the issuance and delivery of Warrant Shares upon exercise of this Warrant.

(c) Exercise Price. For purposes of this Warrant, “**Exercise Price**” means \$0.46, subject to adjustment as provided herein.

COMMON STOCK WARRANT – BIODRAIN MEDICAL, INC.

(d) Cashless Exercise. Notwithstanding anything contained herein to the contrary, if at any time after the one (1) year anniversary of the Closing Date a registration statement covering the Warrant Shares that are the subject of an Exercise Notice (the “**Unavailable Warrant Shares**”) is not available for the resale of such Unavailable Warrant Shares at the time of exercise, the Holder may, in its sole discretion, exercise this Warrant in whole or in part and, in lieu of making the cash payment otherwise contemplated to be made to the Company upon such exercise in payment of the Aggregate Exercise Price, elect instead to receive upon such exercise the “Net Number” of shares of Common Stock determined according to the following formula (a “**Cashless Exercise**”):

$$\text{Net Number} = \frac{(A \times B) - (A \times C)}{B}$$

For purposes of the foregoing formula:

A= the total number of shares with respect to which this Warrant is then being exercised.

B= the Closing Sale Price of the shares of Common Stock (as reported by Bloomberg) on the date immediately preceding the date of the Exercise Notice.

C= the Exercise Price then in effect for the applicable Warrant Shares at the time of such exercise.

(e) Disputes. In the case of a dispute as to the determination of the Exercise Price or the arithmetic calculation of the Warrant Shares, the Company shall promptly issue to the Holder the number of Warrant Shares that are not disputed and resolve such dispute in accordance with Section 12.

(f) Limitations on Exercises; Beneficial Ownership. The Company shall not effect the exercise of this Warrant, and the Holder shall not have the right to exercise this Warrant, to the extent that after giving effect to such exercise, such Person (together with such Person’s affiliates) would beneficially own in excess of 4.99% of the shares of Common Stock outstanding immediately after giving effect to such exercise. For purposes of the foregoing sentence, the aggregate number of shares of Common Stock beneficially owned by such Person and its affiliates shall include the number of shares of Common Stock issuable upon exercise of this Warrant with respect to which the determination of such sentence is being made, but shall exclude shares of Common Stock which would be issuable upon (i) exercise of the remaining, unexercised portion of this Warrant beneficially owned by such Person and its affiliates and (ii) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company beneficially owned by such Person and its affiliates (including, without limitation, any convertible notes or convertible preferred stock or warrants) subject to a limitation on conversion or exercise analogous to the limitation contained herein. Except as set forth in the preceding sentence, for purposes of this paragraph, beneficial ownership shall be calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended. For purposes of this Warrant, in determining the number of outstanding shares of Common Stock, the Holder may rely on the number of outstanding shares of Common Stock as reflected in (1) the Company’s most recent Form 10-K, Form 10-Q, Current Report on Form 8-K or other public filing with the Securities and Exchange Commission, as the case may be, (2) a more recent public announcement by the Company or (3) any other notice by the Company or the Transfer Agent setting forth the number of shares of Common Stock outstanding. For any reason at

COMMON STOCK WARRANT – BIODRAIN MEDICAL, INC.

any time, upon the written or oral request of the Holder, the Company shall within two Business Days confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including the Securities issued under the Subscription Agreement and the Warrants, by the Holder and its affiliates since the date as of which such number of outstanding shares of Common Stock was reported. By written notice to the Company, the Holder may from time to time increase or decrease the Maximum Percentage to any other percentage not in excess of 9.99% specified in such notice; provided that (i) any such increase will not be effective until the sixty-first (61<sup>st</sup>) day after such notice is delivered to the Company, and (ii) any such increase or decrease will apply only to the Holder and not to any other holder of Warrants.

(g) Insufficient Authorized Shares. If at any time while any of the Warrants remain outstanding the Company does not have a sufficient number of authorized and unreserved shares of Common Stock to satisfy its obligation to reserve for issuance upon exercise of the Warrants at least a number of shares of Common Stock equal to 100% (the “**Required Reserve Amount**”) of the number of shares of Common Stock as shall from time to time be necessary to effect the exercise of all of the Warrants then outstanding (an “**Authorized Share Failure**”), then the Company shall immediately take all action necessary to increase the Company’s authorized shares of Common Stock to an amount sufficient to allow the Company to reserve the Required Reserve Amount for the Warrants then outstanding. Without limiting the generality of the foregoing sentence, as soon as practicable after the date of the occurrence of an Authorized Share Failure, but in no event later than sixty (60) days after the occurrence of such Authorized Share Failure, the Company shall hold a meeting of its stockholders for the approval of an increase in the number of authorized shares of Common Stock. In connection with such meeting, the Company shall provide each stockholder with a proxy statement and shall use its best efforts to solicit its stockholders’ approval of such increase in authorized shares of Common Stock and to cause its board of directors to recommend to the stockholders that they approve such proposal.

2. ADJUSTMENT OF EXERCISE PRICE AND NUMBER OF WARRANT SHARES. The Exercise Price and the number of Warrant Shares shall be adjusted from time to time as follows:

(a) Weighted Average Adjustment of Exercise Price upon Issuance of Common Stock. If the Company issues any shares of Common Stock (including the issuance or sale of shares of Common Stock owned or held by or for the account of the Company, but excluding shares of Common Stock deemed to have been issued or sold by the Company in connection with any Excluded Securities) for a consideration per share (the “**New Issuance Price**”) less than the Exercise Price in effect immediately prior to such issue or sale (the foregoing a “**Dilutive Issuance**”), then immediately after such Dilutive Issuance, the Exercise Price then in effect shall be reduced to an amount equal to a price determined by multiplying such Exercise Price by a fraction, the numerator of which shall be a sum equal to the number of shares of Common Stock outstanding and deemed issued pursuant to Section 2(b) immediately prior to such issuance, plus the number of shares of Common Stock that the aggregate consideration received by this Company for such issuance would purchase at such Exercise Price; and the denominator of which shall be the number of shares of Common Stock outstanding and deemed issued pursuant to Section 2(b) immediately prior to such issuance plus the number of shares of such Additional Stock.

COMMON STOCK WARRANT – BIODRAIN MEDICAL, INC.

(b) Provisions Applicable to Exercise Price Adjustments. For purposes of determining the adjusted Exercise Price under Section 2(a) above, the following provisions shall apply:

(1) Issuance of Options. If the Company in any manner grants or sells any Options (other than any Excluded Securities) and the lowest price per share for which one share of Common Stock is issuable upon the exercise of any such Option or upon conversion or exchange or exercise of any Convertible Securities issuable upon exercise of such Option is less than the Exercise Price, then such share of Common Stock shall be deemed to be outstanding and to have been issued and sold by the Company at the time of the granting or sale of such Option for such price per share. For purposes of this Section 2(b)(1), the “lowest price per share for which one share of Common Stock is issuable upon the exercise of any such Option or upon conversion or exchange or exercise of any Convertible Securities issuable upon exercise of such Option” shall be equal to the sum of the lowest amounts of consideration (if any) received or receivable by the Company with respect to any one share of Common Stock upon granting or sale of the Option, upon exercise of the Option and upon conversion or exchange or exercise of any Convertible Security issuable upon exercise of such Option. No further adjustment of the Exercise Price shall be made upon the actual issuance of such share of Common Stock or of such Convertible Securities upon the exercise of such Options or upon the actual issuance of such Common Stock upon conversion or exchange or exercise of such Convertible Securities.

(2) Issuance of Convertible Securities. If the Company in any manner issues or sells any Convertible Securities (other than Excluded Securities) and the lowest price per share for which one share of Common Stock is issuable upon such conversion or exchange or exercise thereof is less than the Exercise Price, then such share of Common Stock shall be deemed to be outstanding and to have been issued and sold by the Company at the time of the issuance or sale of such Convertible Securities for such price per share. For the purposes of this Section 2(b)(2), the “price per share for which one share of Common Stock is issuable upon such conversion or exchange or exercise” shall be equal to the sum of the lowest amounts of consideration (if any) received or receivable by the Company with respect to any one share of Common Stock upon the issuance or sale of the Convertible Security and upon the conversion or exchange or exercise of such Convertible Security. No further adjustment of the Exercise Price shall be made upon the actual issuance of such share of Common Stock upon conversion or exchange or exercise of such Convertible Securities, and if any such issue or sale of such Convertible Securities is made upon exercise of any Options for which adjustment of the Exercise Price had been or are to be made pursuant to other provisions of this Section 2(b), no further adjustment of the Exercise Price shall be made by reason of such issue or sale.

(3) Change in Option Price or Rate of Conversion. If the purchase price provided for in any Options (other than Excluded Securities), the additional consideration, if any, payable upon the issue, conversion, exchange or exercise of any Convertible Securities, or the rate at which any Convertible Securities (other than Excluded Securities) are convertible into or exchangeable or exercisable for Common Stock is changed, the Exercise Price in effect at the time of such change shall be adjusted to the Exercise Price which would have been in effect at such time had such Options or Convertible Securities provided for such changed purchase price, additional consideration or changed conversion rate, as the case may be, at the time initially granted, issued or sold. For purposes of this Section 2(b)(3), if the terms of any Option or Convertible Security that was outstanding as of the Closing Date are changed in the manner described in the immediately preceding sentence, then such Option or Convertible Security and the Common Stock deemed issuable upon exercise, conversion or exchange

COMMON STOCK WARRANT – BIODRAIN MEDICAL, INC.

thereof shall be deemed to have been issued as of the date of such change. No adjustment shall be made if such adjustment would result in an increase of the Exercise Price then in effect.

(4) Definition of Excluded Securities. For purposes of this Agreement, “**Excluded Securities**” shall mean:

(A) shares of Common Stock issued pursuant to a transaction described in Section 2(c) hereof;

(B) shares of Common Stock issued or deemed issued to employees, consultants, attorneys, officers or directors (if in transactions with primarily non-financing purposes) of this Company directly or pursuant to an Approved Stock Plan (as defined in the Subscription Agreement);

(C) shares of Common Stock issued or issuable (1) in a bona fide, underwritten public offering under the Act resulting in aggregate gross proceeds of at least \$10,000,000, or (2) upon exercise of warrants or rights granted to underwriters in connection with such a public offering;

(D) shares of Common Stock issued pursuant to the conversion or exercise of convertible or exercisable securities outstanding as of the date hereof including the Warrants and the Placement Agent Warrants (as defined in the Subscription Agreement) or subsequently issued, provided such securities are not amended after the date hereof to increase the number of shares of Common Stock issuable thereunder or to lower the exercise price thereof;

(E) shares of Common Stock issued or issuable in connection with a bona fide business acquisition of or by this Company, whether by merger, consolidation, sale of assets, sale or exchange of stock or otherwise, each as approved by the Board of Directors of this Company, however, excluding shares issued or issuable in connection with a transaction between the Company and an Affiliate; or

(F) shares of Common Stock issued or issuable in connection with any transaction where such securities so issued are deemed included in the definition of “Excluded Securities” by the affirmative vote or written consent of the Required Holders.

(5) Record Date. If the Company takes a record of the holders of Common Stock for the purpose of entitling them (A) to receive a dividend or other distribution payable in Common Stock, Options or in Convertible Securities or (B) to subscribe for or purchase Common Stock, Options or Convertible Securities, then such record date will be deemed to be the date of the issue or sale of the Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

(6) Dividends. In case the Company shall declare a dividend or make any other distribution upon any stock of the Company (other than the Common Stock) payable in Common Stock, Options or Convertible Securities, then any Common Stock, Options or Convertible Securities, as the case may be, issuable in payment of such dividend or distribution shall be deemed to

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have been issued or sold without consideration; provided, that if any adjustment is made to the Exercise Price as a result of a declaration of a dividend and such dividend is rescinded, the Exercise Price shall be appropriately readjusted to the Exercise Price in effect had such dividend not been declared;

(7) Calculation of Consideration. In case any shares of Common Stock, Options or Convertible Securities shall be issued or sold for cash, the consideration received therefor shall be deemed to be the net amount received by the Company therefor, after deduction therefrom of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Company in connection therewith. In case any shares of Common Stock, Options or Convertible Securities shall be issued or sold for a consideration other than cash, the amount of the consideration other than cash received by the Company shall be deemed to be the fair value of such consideration as determined in good faith by the Board, after deduction of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Company in connection therewith. In case any Options shall be issued in connection with the issuance and sale of other securities of the Company, together comprising one integral transaction in which no specific consideration is allocated to such Options by the parties thereto, such Options shall be deemed to have been issued for such consideration as determined in good faith by the Board of Directors of the Company. If Common Stock, Options or Convertible Securities shall be issued or sold by the Company and, in connection therewith, other Options or Convertible Securities (the "Additional Rights") are issued, then the consideration received or deemed to be received by the Company shall be reduced by the fair market value of the Additional Rights (as determined using the Black-Scholes option pricing model or another method mutually agreed to by the Company and the Holder). The Board shall respond promptly, in writing, to an inquiry by the Holder as to the fair market value of the Additional Rights.

(c) If the Company, at any time while this Warrant is outstanding: (A) pays a stock dividend or otherwise makes a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Company upon exercise of this Warrant), (B) subdivides outstanding shares of Common Stock into a larger number of shares, (C) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (D) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be adjusted by multiplying the Exercise Price by a fraction, of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event, and the number of shares issuable upon exercise of this Warrant shall be proportionately adjusted to result in the same Aggregate Exercise Price as existed immediately prior to such event. Any adjustment made pursuant to this Section 2(c) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution or shall become effective immediately after the effective date of such subdivision, combination or reclassification, as applicable.

(d) Organic Change. If, at any time while this Warrant is outstanding, (A) the Company effects any merger or consolidation of the Company with or into another Person, (B) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (C) any tender offer or exchange offer (whether by the Company or another Person) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, or (D) the Company effects any reclassification of the Common Stock or any

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compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (each “Organic Change”), then, upon any subsequent exercise of this Warrant, the Holder shall have the right to receive, for each Warrant Share that would have been issuable upon such exercise immediately prior to the occurrence of such Organic Change, the number of shares of Common Stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and/or any additional consideration (the “Alternate Consideration”) receivable as a result of such merger, consolidation or disposition of assets by a Holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such event. For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Organic Change (if applicable), and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Organic Change, then the Holder shall be given the same choice (no later than the time of the Organic Change) as to the Alternate Consideration it receives upon any exercise of this Warrant following such Organic Change. To the extent necessary to effectuate the foregoing provisions, any successor to the Company or surviving entity in such Organic Change shall issue to the Holder a new warrant consistent with the foregoing provisions and evidencing the Holder’s right to exercise such warrant into Alternate Consideration. The terms of any agreement pursuant to which an Organic Change is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this Section 3(e) and insuring that this Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to an Organic Change.

3. NONCIRCUMVENTION. The Company hereby covenants and agrees that the Company will not, by amendment of its Articles of Incorporation, Bylaws or through any reorganization, transfer of assets, consolidation, merger, scheme of arrangement, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, and will at all times in good faith carry out all the provisions of this Warrant and take all action as may be required to protect the rights of the Holder. Without limiting the generality of the foregoing, the Company (i) shall not increase the par value of any shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect, (ii) shall take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant, and (iii) shall, so long as any of the Warrants are outstanding, take all action necessary to reserve and keep available out of its authorized and unissued shares of Common Stock, solely for the purpose of effecting the exercise of the Warrants, 100% of the number of shares of Common Stock as shall from time to time be necessary to effect the exercise of the Warrants then outstanding (without regard to any limitations on exercise).

4. WARRANT HOLDER NOT DEEMED A STOCKHOLDER. Except as otherwise specifically provided herein, the Holder, solely in such Person’s capacity as a holder of this Warrant, shall not be entitled to vote or receive dividends or be deemed the holder of share capital of the Company for any purpose, nor shall anything contained in this Warrant be construed to confer upon the Holder, solely in such Person’s capacity as the Holder of this Warrant, any of the rights of a stockholder of the Company or any right to vote, give or withhold consent to any corporate action (whether any reorganization, issue

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of stock, reclassification of stock, consolidation, merger, conveyance or otherwise), receive notice of meetings, receive dividends or subscription rights, or otherwise, prior to the issuance to the Holder of the Warrant Shares which such Person is then entitled to receive upon the due exercise of this Warrant. In addition, nothing contained in this Warrant shall be construed as imposing any liabilities on the Holder to purchase any securities (upon exercise of this Warrant or otherwise) or as a stockholder of the Company, whether such liabilities are asserted by the Company or by creditors of the Company. Notwithstanding this Section 4, the Company shall provide the Holder with copies of the same notices and other information given to the stockholders of the Company generally, contemporaneously with the giving thereof to the stockholders.

#### 5. REISSUANCE OF WARRANTS.

(a) Transfer of Warrant. If this Warrant is to be transferred, the Holder shall surrender this Warrant to the Company, whereupon the Company will forthwith issue and deliver upon the order of the Holder a new Warrant (in accordance with Section 5(d)), registered as the Holder may request, representing the right to purchase the number of Warrant Shares being transferred by the Holder and, if less than the total number of Warrant Shares then underlying this Warrant is being transferred, a new Warrant (in accordance with Section 5(d)) to the Holder representing the right to purchase the number of Warrant Shares not being transferred. Applicable transfer taxes, if any, shall be paid by the Holder.

(b) Lost, Stolen or Mutilated Warrant. Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant, and, in the case of loss, theft or destruction, of any indemnification undertaking by the Holder to the Company in customary form and, in the case of mutilation, upon surrender and cancellation of this Warrant, the Company shall execute and deliver to the Holder a new Warrant (in accordance with Section 5(d)) representing the right to purchase the Warrant Shares then underlying this Warrant.

(c) Exchangeable for Multiple Warrants. This Warrant is exchangeable, upon the surrender hereof by the Holder at the principal office of the Company, for a new Warrant or Warrants (in accordance with Section 5(d)) representing in the aggregate the right to purchase the number of Warrant Shares then underlying this Warrant, and each such new Warrant will represent the right to purchase such portion of such Warrant Shares as is designated by the Holder at the time of such surrender; provided, however, that no Warrants for fractional shares of Common Stock shall be given.

(d) Issuance of New Warrants. Whenever the Company is required to issue a new Warrant pursuant to the terms of this Warrant, such new Warrant (i) shall be of like tenor with this Warrant, (ii) shall represent, as indicated on the face of such new Warrant, the right to purchase the Warrant Shares then underlying this Warrant (or in the case of a new Warrant being issued pursuant to Section 5(a) or Section 5(c), the Warrant Shares designated by the Holder which, when added to the number of shares of Common Stock underlying the other new Warrants issued in connection with such issuance, does not exceed the number of Warrant Shares then underlying this Warrant), and (iii) shall have an issuance date, as indicated on the face of such new Warrant which is the same as the Issuance Date.

6. NOTICES. Whenever notice is required to be given under this Warrant, unless otherwise provided herein, such notice shall be given in accordance with the notice provision

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requirements of the Subscription Agreement. The Company shall provide the Holder with prompt written notice of all actions taken pursuant to this Warrant, including in reasonable detail a description of such action and the reason therefore. Without limiting the generality of the foregoing, the Company will give written notice to the Holder (i) immediately upon any adjustment of the Exercise Price, setting forth in reasonable detail, and certifying, the calculation of such adjustment and (ii) at least fifteen days prior to the date on which the Company closes its books or takes a record (A) with respect to any dividend or distribution upon the shares of Common Stock, (B) with respect to any grants, issuances or sales of any Options, Convertible Securities or rights to purchase stock, warrants, securities or other property to holders of shares of Common Stock or (C) for determining rights to vote with respect to any Fundamental Transaction, dissolution or liquidation, provided in each case that such information shall be made known to the public prior to or in conjunction with such notice being provided to the Holder.

7. AMENDMENT AND WAIVER. Except as otherwise provided herein, the provisions of this Warrant may be amended and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company has obtained the written consent of the Required Holders; provided that no such action may (i) increase the exercise price of any Warrants issued under the Subscription Agreement or decrease the number of shares or change the class of stock obtainable upon exercise of any Warrants issued under the Subscription Agreement, (ii) modify Section 1(d) or 1(g) of this Warrant or (iii) disproportionately affect the Holder in a materially and adversely manner (except as a result of holding a greater percentage of Warrant Shares) without the written consent of the Holder. No such amendment shall be effective to the extent that it applies to less than all of the holders of the Warrants then outstanding.

8. GOVERNING LAW. This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of Minnesota without regard to the choice of law principles thereof.

9. CONSTRUCTION; HEADINGS. This Warrant shall be deemed to be jointly drafted by the Company and all the Holders and shall not be construed against any person as the drafter hereof. The headings of this Warrant are for convenience of reference and shall not form part of, or affect the interpretation of, this Warrant.

10. DISPUTE RESOLUTION. In the case of a dispute as to the determination of the Exercise Price or the arithmetic calculation of the Warrant Shares, the Company shall submit the disputed determinations or arithmetic calculations via facsimile within two (2) Business Days of receipt of the Exercise Notice giving rise to such dispute, as the case may be, to the Holder. If the Holder and the Company are unable to agree upon such determination or calculation of the Exercise Price or the Warrant Shares within three (3) Business Days of such disputed determination or arithmetic calculation being submitted to the Holder, then the Company shall, within two (2) Business Days submit via facsimile (a) the disputed determination of the Exercise Price to an independent, reputable investment bank selected by the Company and approved by the Holder or (b) the disputed arithmetic calculation of the Warrant Shares to the Company's independent, outside accountant. The Company shall cause at its expense the investment bank or the accountant, as the case may be, to perform the determinations or calculations and notify the Company and the Holder of the results no later than ten (10) Business Days from the time it receives the disputed determinations or calculations. Such investment bank's or accountant's determination or calculation, as the case may be, shall be binding upon all parties absent demonstrable error.

COMMON STOCK WARRANT – BIODRAIN MEDICAL, INC.

11. **TRANSFER.** This Warrant may be offered for sale, sold, transferred or assigned without the consent of the Company, except as may otherwise be required by the Subscription Agreement.

12. **CERTAIN DEFINITIONS.** For purposes of this Warrant, the following terms shall have the following meanings:

(a) **“Bloomberg”** means Bloomberg Financial Markets.

(b) **“Business Day”** means any day other than Saturday, Sunday or other day on which commercial banks in the City of New York are authorized or required by law to remain closed.

(c) **“Closing Bid Price”** and **“Closing Sale Price”** means, for any security as of any date, the last closing bid price and last closing trade price, respectively, for such security on the Principal Market, as reported by Bloomberg, or, if the Principal Market begins to operate on an extended hours basis and does not designate the closing bid price or the closing trade price, as the case may be, then the last bid price or last trade price, respectively, of such security prior to 4:00 p.m., New York Time, as reported by Bloomberg, or, if the Principal Market is not the principal securities exchange or trading market for such security, the last closing bid price or last trade price, respectively, of such security on the principal securities exchange or trading market where such security is listed or traded as reported by Bloomberg, or if the foregoing do not apply, the last closing bid price or last trade price, respectively, of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no closing bid price or last trade price, respectively, is reported for such security by Bloomberg, the average of the bid prices, or the ask prices, respectively, of any market makers for such security as reported in the “pink sheets” by Pink Sheets LLC (formerly the National Quotation Bureau, Inc.). If the Closing Bid Price or the Closing Sale Price cannot be calculated for a security on a particular date on any of the foregoing bases, the Closing Bid Price or the Closing Sale Price, as the case may be, of such security on such date shall be the fair market value as mutually determined by the Company and the Holder. If the Company and the Holder are unable to agree upon the fair market value of such security, then such dispute shall be resolved pursuant to Section 10. All such determinations to be appropriately adjusted for any stock dividend, stock split, stock combination or other similar transaction during the applicable calculation period.

(d) **“Common Stock”** means (i) the Company’s shares of Common Stock, par value \$0.001 per share, and (ii) any share capital into which such Common Stock shall have been changed or any share capital resulting from a reclassification of such Common Stock.

(e) **“Convertible Securities”** means any stock or securities (other than Options) directly or indirectly convertible into or exercisable or exchangeable for shares of Common Stock.

(f) **“Eligible Market”** means the Principal Market, the American Stock Exchange, The New York Stock Exchange, Inc., the Nasdaq National Market or The Nasdaq SmallCap Market.

(g) **“Expiration Date”** means the date thirty six (36) months after the Issuance Date or, if such date falls on a day other than a Business Day or on which trading does not take

COMMON STOCK WARRANT – BIODRAIN MEDICAL, INC.

place on the Principal Market (a “**Holiday**”), the next date that is not a Holiday; provided, that the Expiration Date may be accelerated pursuant to the provisions of Section 1(h).

(h) “**Fundamental Transaction**” means that the Company shall, directly or indirectly, in one or more related transactions, (i) consolidate or merge with or into (whether or not the Company is the surviving corporation) another Person, or (ii) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Company, including intellectual property, to another Person, or (iii) allow another Person to make a purchase, tender or exchange offer that is accepted by the holders of more than fifty percent (50%) of either the outstanding shares of Common Stock (not including any shares of Common Stock held by the Person or Persons making or party to, or associated or affiliated with the Persons making or party to, such purchase, tender or exchange offer), or (iv) consummate a stock purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person whereby such other Person acquires more than fifty percent (50%) of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock purchase agreement or other business combination), (v) reorganize, recapitalize or reclassify its Common Stock (other than a forward or reverse stock split), or (vi) any “person” or “group” (as these terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act) is or shall become the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of fifty percent (50%) of the aggregate ordinary voting power represented by issued and outstanding Common Stock.

(i) “**Options**” means any rights, warrants or options to subscribe for or purchase shares of Common Stock or Convertible Securities.

(j) “**Organic Change**” means a transaction as described in section 2(d).

(k) “**Parent Entity**” of a Person means an entity that, directly or indirectly, controls the applicable Person and whose common stock or equivalent equity security is quoted or listed on an Eligible Market, or, if there is more than one such Person or Parent Entity, the Person or Parent Entity with the largest public market capitalization as of the date of consummation of the Fundamental Transaction.

(l) “**Person**” means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization, any other entity and a government or any department or agency thereof.

(m) “**Principal Market**” means the OTC Bulletin Board.

(n) “**Required Holders**” means the holders of the Warrants representing at least a majority of shares of Common Stock underlying the Warrants then outstanding.

(o) “**Securities**” means the Notes issued pursuant to the Subscription Agreement.

(p) “**Successor Entity**” means the Person (or, if so elected by the Required Holders, the Parent Entity) formed by, resulting from or surviving any Fundamental Transaction or the

COMMON STOCK WARRANT – BIODRAIN MEDICAL, INC.

Person (or, if so elected by the Required Holders, the Parent Entity) with which such Fundamental Transaction shall have been entered into.

*[Signature Page Follows]*

COMMON STOCK WARRANT – BIODRAIN MEDICAL, INC.

IN WITNESS WHEREOF, the Company has caused this Warrant to Purchase Common Stock to be duly executed as of the Issuance Date set out above.

**BIODRAIN MEDICAL, INC.**

By:

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Kevin Davidson  
Chief Executive Officer

COMMON STOCK WARRANT – BIODRAIN MEDICAL, INC.

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EXHIBIT A

EXERCISE NOTICE

**TO BE EXECUTED BY THE REGISTERED HOLDER TO EXERCISE THIS  
WARRANT TO PURCHASE COMMON STOCK  
BIODRAIN MEDICAL, INC.**

The undersigned holder hereby exercises the right to purchase \_\_\_\_\_ of the shares of Common Stock (“**Warrant Shares**”) of BIODRAIN MEDICAL, INC., a Minnesota corporation (the “**Company**”), evidenced by the attached Warrant to Purchase Common Stock (the “**Warrant**”). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Warrant.

1. Form of Exercise Price. The Holder intends that payment of the Exercise Price shall be made as:

\_\_\_\_\_ a “Cash Exercise” with respect to \_\_\_\_\_ Warrant Shares; and/or

\_\_\_\_\_ a “Cashless Exercise” with respect to \_\_\_\_\_ Warrant Shares.

2. Payment of Exercise Price. In the event that the holder has elected a Cash Exercise with respect to some or all of the Warrant Shares to be issued pursuant hereto, the holder shall pay the Aggregate Exercise Price in the sum of \$\_\_\_\_\_ to the Company in accordance with the terms of the Warrant.

3. Delivery of Warrant Shares. The Company shall deliver to the holder \_\_\_\_\_ Warrant Shares in accordance with the terms of the Warrant.

4. Acknowledgement. The undersigned holder hereby represents and warrants that after giving effect to the exercise of the Warrant contemplated by this Exercise Notice, such holder will not be in violation of the beneficial ownership limits specified in Section 1(g) of the Warrant, as increased or decreased pursuant to terms contained therein.

Date: \_\_\_\_\_, \_\_\_\_\_

\_\_\_\_\_  
Name of Registered Holder

By:

\_\_\_\_\_  
Name:

Title:

COMMON STOCK WARRANT – BIODRAIN MEDICAL, INC.

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**ACKNOWLEDGMENT**

The Company hereby acknowledges this Exercise Notice and hereby directs **[Insert Name of Transfer Agent]** to issue the above indicated number of shares of Common Stock in accordance with the Transfer Agent Instructions dated \_\_\_\_\_ from the Company and acknowledged and agreed to by **[Insert Name of Transfer Agent]**.

**BIODRAIN MEDICAL, INC.**

By:

\_\_\_\_\_  
Kevin Davidson  
Chief Executive Officer

COMMON STOCK WARRANT – BIODRAIN MEDICAL, INC.

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**BioDrain Medical, Inc.**  
**(A Minnesota Corporation)**  
**2008 Equity Incentive Plan**  
**October 31, 2008**

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**BioDrain Medical, Inc.**  
**(A Minnesota Corporation)**  
**2008 Equity Incentive Plan**  
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### BIODRAIN MEDICAL, INC.

(A Minnesota Corporation)

### 2008 EQUITY INCENTIVE PLAN

#### ARTICLE 1.

#### ESTABLISHMENT, PURPOSE, AND DURATION

1.1) The Plan.

(a) Initial Adoption. This plan, shall be known as “The BioDrain Medical, Inc. 2008 Equity Incentive Plan” (the “Plan”).

(b) Approval of Shareholders. This Plan is expressly subject to approval of the Corporation’s shareholders, and if it is not so approved on or before twelve (12) months after the date of adoption of this Plan by the Board of Directors, the Plan shall not come into effect and any Options granted pursuant to this Plan shall be deemed canceled.

1.2) Purpose of the Plan. The purpose of the Plan is to promote the success of the Company and its Parents and its Subsidiaries by providing incentives to the Company’s directors, officers, employees and Contractors by linking their personal interests to the long-term financial success of the Company and its Parents and its Subsidiaries, and to growth in shareholder value.

1.3) Duration of the Plan. The Plan will commence on the effective date set forth in Section 1.1, And shall remain in effect, subject to the right of the Board of Directors to terminate the Plan at any time, until all Shares subject to it have been purchased or acquired according to the provisions herein. No Awards may be granted under the Plan after the tenth anniversary of the effective date of the plan.

#### ARTICLE 2.

#### DEFINITIONS AND CONSTRUCTION

2.1) Definitions. Whenever used in the Plan, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

(a) “Award” means, individually or collectively, a grant under this Plan of Incentive Stock Options, Nonqualified Stock Options, Stock Appreciation Rights or Restricted Stock.

(b) “Beneficial Owner” shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

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(c) “Board” or “Board of Directors” means the Board of Directors of the Company.

(d) “Cause” shall include but not be limited to: (i) willful breach of any agreement entered into with the Company; (ii) misappropriation of the Company’s property, fraud, embezzlement, breach of fiduciary duty, other acts of dishonesty against the Company; or (iii) conviction of any felony or crime involving moral turpitude.

(e) “Change in Control” shall mean:

(1) That any Person (other than the Company) has made a tender offer to acquire such number of shares of the Company’s Stock as shall constitute fifty percent (50%) or more of the Company’s outstanding Stock;

(2) That the Company has issued or the Company’s officers and directors have transferred (and/or assigned their voting rights related to) shares of Stock (or other securities convertible into or exchangeable for Stock) representing at least fifty percent (50%) of the outstanding Stock of the Company (including a series of similar transactions effected within six (6) months which, in the aggregate, result in the issuance and/or transfer of (and/or assignment of voting rights related to) at least fifty percent (50%) of the Company’s outstanding Stock) (the percentages set forth in this subsection to be computed after completion of the subject transactions and as though Shares “beneficially owned,” as defined in Rule 13d-3 under the Exchange Act, were, in fact, owned) (this provision (e) shall not apply to sales of the Company’s outstanding Stock pursuant to a registered public offering prior to December 31, 2010 if such

non-application is approved by a majority of the Board members who are members of the Board on the effective date of the Plan or who are deemed to be members of the Board at such date pursuant to (e)(4), below);

- (3) That a proxy statement, whether issued by the Company or another shareholder, proposes a vote at a shareholder meeting related to any merger of the Company, any sale of substantially all of the Company's assets or any reorganization of the Company involving a change in beneficial ownership of the Company;
- (4) That the individuals who constitute the Board of Directors on the effective date of the Plan cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the effective date of the Plan whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors comprising the Board on the effective date of the Plan will, for purpose of this subsection, be considered as though such persons were a member of the Board of Directors on the effective date of the Plan;
- (5) A change in control of the Company of a nature that would be required to be reported pursuant to Section 13 or 15(d) of the Exchange Act, whether

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or not the Company is then subject to such reporting requirements, including, without limitation, such time as any Person becomes, after the effective date of the Plan, the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of fifty percent (50%) or more of the combined voting power of the Company's outstanding securities ordinarily having the right to vote at elections of directors; or

- (6) Any other event which the Committee determines is of similar effect, such determination to be made by the Committee on an event-by-event basis.
- (f) "Code" means the Internal Revenue Code of 1986, as amended from time to time.
- (g) "Committee" means a committee appointed by the Board of Directors of the Company provided that, at any time that securities of the Company are listed for trading on one or more national securities exchanges or are quoted on the Nasdaq National Market System, the committee shall consist solely of not less than three members of the Board of Directors of the Company, each of whom is a director who satisfies each of the following requirements:
- (1) The director qualifies as a "non-employee director" within the meaning of, and to the extent required to comply with, Rule 16b-3 of the Exchange Act or any successor provision promulgated under the Exchange Act;
  - (2) The director qualifies as an "outside director" within the meaning of, and to the extent required to comply with, Code Section 162(m); and
  - (3) The director qualified as an "independent director" as defined in Rule 4200(a)(14) of the Rules of The National Association of Securities Dealers, Inc., as amended from time to time.

The term "Committee" shall refer to the Board of Directors of the Company during such times as no committee is appointed by the Board of Directors and during such times as the Board of Directors is acting in lieu of the Committee.

- (h) "Company" means (i) BioDrain Medical, Inc., a Minnesota corporation; or (ii) any successor thereto as provided in Article 14.
- (i) "Contractor" means an individual who is an agent of the Company or a Parent or a Subsidiary or is retained to provide consulting or other services to the Company or a Parent or a Subsidiary, and who is not an employee of the Company or a Parent or any Subsidiary. Unless otherwise specified by an agreement in writing, a Contractor's status as a Contractor shall for purposes of the Plan be deemed to have terminated at such time as the Committee shall determine. A non-employee director of the Company shall not be considered a Contractor for purposes of the Plan.
- (j) "Disability" means a physical or mental impairment which prevents a Participant from performing his regularly-scheduled duties as a director, officer, employee or Contractor, and which is expected to be of long duration or result in death. All

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determinations as to a Participant's disability status shall be made by the Committee in its discretion and on the basis of such evidence as it shall deem appropriate; provided, however that if a Participant qualifies as disabled within the definition of Code Section 22(e)(3) or qualifies for disability income benefits under a long-term disability benefit plan or insurance policy maintained by the Company or a long-term disability insurance policy maintained by the Participant individually, such qualification shall be conclusive evidence of the Participant's disability for purposes of this Plan.

- (k) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.
- (l) "Fair Market Value" means the price per Share of the common Stock of the Company determined as follows: (i) if the security is listed for trading on one or more national securities exchanges or is quoted on the Nasdaq National Market System ("Nasdaq NMS"), the reported last sales price on such principal exchange or system on the date in question (if such security shall not have been traded on such principal exchange or on the Nasdaq NMS on such date, the reported last sales price on such principal exchange or on Nasdaq NMS on the first day prior thereto on which such security was so traded); or (ii) if the security is not listed for trading on a national securities exchange and is not quoted on Nasdaq NMS but is quoted on the Nasdaq Small Cap System or is otherwise traded in the over-the-counter market, the mean of the highest and lowest bid prices for such security on the date in question (if there are no such bid prices for such security on such date, the mean of the highest and lowest bid prices on the most recent day prior thereto

(not to exceed ten (10) days prior to the date in question) on which such prices existed); or (iii) if neither (i) nor (ii) is applicable, by any means deemed fair and reasonable by the Committee, which determination shall be final and binding on all parties.

(m) "Family Member" includes any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the employee's household (other than a tenant or employee), a trust in which these persons have more than fifty percent of the beneficial interest, a foundation in which these persons (or the employee) control the management of assets, and any other entity in which these persons (or the employee) own more than fifty percent of the voting interests.

(n) "Incentive Stock Option" means any stock option granted pursuant to this Plan as an "incentive stock option" within the meaning of Section 422 of the Code.

(o) "Nonqualified Stock Option" means any stock option granted pursuant to this Plan other than as an Incentive Stock Option.

(p) "Option" means an Incentive Stock Option or a Nonqualified Stock Option.

(q) "Parent" means any company in an unbroken chain of companies ending with the Company, if, at the time of granting the Award, each of the companies in the chain, other

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than the Company, owns stock possessing more than fifty percent (50%) of the total combined voting power of all classes of stock in one of the other companies in such chain. The term shall include any Parent which become such after adoption of this Plan.

(r) "Participant" means a director, officer, employee or Contractor who has been granted an Award under the Plan.

(s) "Period of Restriction" means the period during which the transfer or sale of Shares of Restricted Stock by the Participant is restricted.

(t) "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) thereof.

(u) "Plan" means this BioDrain Medical, Inc. 2008 Equity Incentive Plan.

(v) "Restricted Stock" means an Award of Stock granted to a Participant pursuant to Article 8.

(w) "Securities Act" means the Securities Act of 1933, as amended from time to time.

(x) "Subsidiary" means any company in an unbroken chain of companies beginning with the Company, if, at the time of granting the Award, each of the companies other than the last company in the chain owns stock possessing more than fifty percent (50%) of the total combined voting power of all classes of stock in one of the other companies in such chain. The term shall include any Subsidiaries which become such after adoption of this Plan.

(y) "Stock" or "Shares" means the common stock of the Company.

(z) "Stock Appreciation Right" or "SAR" means an Award designated as a Stock Appreciation Right, granted to a Participant pursuant to Article 7.

(aa) "Voting Stock" shall mean securities of any class or classes of stock of a corporation, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the corporate directors.

2.2) Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular, and the singular shall include the plural.

2.3) Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

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**ARTICLE 3.**

**ADMINISTRATION**

3.1) The Committee. The Plan shall be administered by the Committee, the members of which shall be appointed from time to time by, and shall serve at the discretion of, the Board of Directors.

3.2) Authority of the Committee. Subject to the provisions of the Plan, the Committee shall have full power to construe and interpret the Plan; to establish, amend or waive rules for its administration; to accelerate the vesting of any Option or SAR or the termination of any Period of Restriction under any Award agreement, or other instrument relating to an Award under the Plan; and (subject to the provisions of Article 12) to amend the terms and conditions of any outstanding Option, SAR or Restricted Stock Award to the extent such terms and conditions are within the discretion of the Committee as provided in the Plan. Except as required by Section 4.3 and as provided in Article 12, in no event shall the Committee have the right to (i) cancel outstanding Options or SARs for the purpose of replacing or regranted such Options or SARs with an exercise price that is less than the original exercise price of the Option or SAR or (ii) change the exercise price of an Option or SAR to an exercise price that is less than the original exercise price without first obtaining the approval of shareholders of the

Company. Notwithstanding the foregoing, as provided in Section 12.2, no action of the Committee (other than pursuant to Section 4.3) may, without the consent of the person or persons holding Restricted Stock or any outstanding Option or Stock Appreciation Right, adversely affect the rights of such person or persons.

3.3) Selection of Participants. Subject to the provisions of Section 5.2, the Committee shall have the authority to grant Awards under the Plan, from time to time, to such current directors, officers, employees and Contractors as it may select; provided, however, that Incentive Stock Options may only be granted to employees. Without amending the Plan, the Committee may grant Awards to eligible employees who are foreign nationals on such terms and conditions different from those specified in this Plan as may, in the judgment of the Committee, be necessary or desirable to foster and promote achievement of the purposes of the Plan, and, in furtherance of such purposes, the Committee may make such modification, amendments, procedures, subplans, and the like as may be necessary or advisable to comply with provisions of laws in other countries in which the Company operates or has employees.

3.4) Decisions Binding. All determinations and decisions made by the Committee pursuant to the provisions of the Plan and all related orders or resolutions of the Board of Directors shall be final, conclusive and binding on all persons, including the Company and its Parents and its Subsidiaries, its shareholders, employees, and Participants and their estates and beneficiaries, and such determinations and decisions shall not be reviewable.

3.5) Procedures of the Committee. All determinations of the Committee shall be made by not less than a majority of its members present at the meeting (in person or otherwise) at which a quorum is present. A majority of the entire Committee shall constitute a quorum for the transaction of business. Any action required or permitted to be taken at a meeting of the Committee may be taken without a meeting if a unanimous written consent, which sets forth the

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action, is signed by each member of the Committee and filed with the minutes for proceedings of the Committee. Service on the Committee shall constitute service as a director of the Company so that members of the Committee shall be entitled to indemnification, limitation of liability and reimbursement of expenses with respect to their services as members of the Committee to the same extent that they are entitled under the Company's Articles of Incorporation and Minnesota law for their services as directors of the Company.

3.6) Award Agreements. Awards under the Plan shall be evidenced by an Award agreement, which shall be signed by an officer of the Company and by the Participant, and shall contain such terms and conditions as are approved by the Committee. Such terms and conditions need not be the same in all cases.

3.7) Conditions on Awards. Notwithstanding any other provision of the Plan, the Board or the Committee may impose such conditions on any Award (including, without limitation, impositions on the time of exercise of Options and SARs to specified periods) as it deems appropriate.

3.8) Saturdays, Sundays and Holidays. When a date referenced in an Award agreement falls on a Saturday, Sunday or other day when the Company's general office is closed, the date referenced will revert back to the day prior to such date.

#### ARTICLE 4.

##### STOCK SUBJECT TO THE PLAN

4.1) Number of Shares. Subject to adjustment as provided in Section 4.3, the aggregate number of Shares that may be delivered under the Plan shall not exceed nine hundred seventy five thousand four hundred five (975,405) Shares. For purposes of determining at any time the number of shares that may be delivered pursuant to this Section 4.1, the exercise of a Stock Appreciation Right, whether paid in cash or Stock, shall be treated as a delivery of, and a reduction to remaining available shares by, that number of Shares which corresponds to the number of Shares with respect to which the Stock Appreciation Right is exercised.

4.2) Lapsed Awards. If any Award granted under this Plan terminates, expires, or lapses for any reason, any Stock subject to such Award again shall be available for the grant of an Award under the Plan, subject to Section 7.1.

4.3) Adjustments in Authorized Shares.

(a) In the event that the outstanding Shares of the Company are changed into or exchanged for a different number or kind of shares or other securities of the Company or of another company by reason of any reorganization, merger, consolidation, recapitalization, reclassification, stock split, reverse stock split, combination of shares or dividends payable in capital stock, an appropriate adjustment shall be made in the number and kind of Shares as to which Awards may be granted under the Plan and as to which outstanding Options and SARs or portions thereof then unexercised shall be exercisable, to the end that the proportionate interest of the Participant shall be maintained as before the occurrence of such event; such adjustment in outstanding Options and SARs shall be

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made without change in the total price applicable to the unexercised portion of such Awards and with a corresponding adjustment in the exercise price per Share. No such adjustment shall be made hereunder which shall, within the meaning of any applicable sections of the Code, constitute a modification, extension or renewal of an Award or a grant of additional benefits to a participant.

(b) If the Company is a party to a merger, consolidation, reorganization, or similar corporate transaction and if, as a result of that transaction, its Shares are exchanged for: (i) other securities of the Company and/or (ii) securities of another company which has assumed the outstanding Awards under the Plan or has substituted for such Awards its own awards, then each Participant shall be entitled (subject to the conditions stated herein or in such substituted awards, if any), in respect of that Participant's Awards, to rights with respect to such other securities of the Company or of such other company as are sufficient in the determination of the Committee to ensure that the value of the Participant's Awards immediately before the corporate transaction is equivalent to the value of such Awards immediately after the transaction, taking into account the exercise price of Options and SARs before such transaction, the Fair Market Value of Shares immediately before such transaction and the Fair Market Value immediately after the transaction of the securities then subject to that Award (or to the award substituted for that Award, if any). The Committee shall make the determinations specified in this subsection (b) in the event of any transaction described in this subsection (b), and its determination shall be binding on all Participants.

(c) Upon the happening of any such corporate transaction, the class and aggregate number of Shares subject to the Plan which have been heretofore or may be hereafter granted under the Plan shall be appropriately adjusted to reflect the events specified in this Section 4.3.

## ARTICLE 5.

### ELIGIBILITY AND PARTICIPATION

5.1) Eligibility. Awards may be granted only to a person who on the date of grant is a director, officer, employee or Contractor of the Company or a Parent or a Subsidiary of the Company. All directors, officers, employees and Contractors of the Company or a Parent or a Subsidiary are eligible to receive Awards under the Plan; provided, however, that only employees shall be eligible for a grant of Incentive Stock Options. No director, officer, employee or Contractor shall have any right to be granted an Award under this Plan even if previously granted an Award.

Without amending the Plan, the Committee may grant Awards to eligible employees who are foreign nationals on such terms and conditions different from those specified in this Plan as may, in the judgment of the Committee, be necessary or desirable to foster and promote achievement of the purposes of the Plan, and in furtherance of such purposes, the Committee may make such modification, amendments, procedures, subplans, and the like as may be necessary or advisable to comply with provisions of laws in other countries in which the Company operates or has employees.

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5.2) Actual Participation. The Committee may grant such type(s) of Awards to such directors, officers, employees and Contractors of the Company or a Parent or a Subsidiary at such times as the Committee shall determine; provided, however, that Incentive Stock Options shall be granted only to employees of the Company or a Parent or a Subsidiary. Awards granted under this subsection shall contain such terms and conditions may be as determined by the Committee at the time of grant.

## ARTICLE 6.

### STOCK OPTIONS

6.1) Grant of Options. Subject to the terms and provisions of the Plan, Options may be granted to Participants at any time and from time to time as shall be determined by the Committee. The Committee shall have the sole discretion, subject to the requirements of the Plan, to determine the actual number of Shares subject to Options granted to any Participant, and to determine whether an Option shall be granted as an Incentive Stock Option or a Nonqualified Stock Option. The Committee may specify the period of time over which vesting shall occur, and may in its discretion further provide for the acceleration of vesting upon the attainment of such goals as the Committee may determine in its discretion. The previous provisions of this Section 6.1 notwithstanding, the aggregate Fair Market Value (determined at the time the Option is granted) of the Stock with respect to which an Incentive Stock Option under this Plan or any other plan of the Company or its Parents or its Subsidiaries is exercisable for the first time by a Participant during any calendar year shall not exceed \$100,000.

To the extent that the aggregate Fair Market Value (determined as of the date an Incentive Stock Option is granted) of the Shares with respect to which the Incentive Stock Options are exercisable for the first time by a Participant during any calendar year (under the Plan and any other incentive stock option plans of the Company or any Parent or any Subsidiary) exceeds \$100,000 (or such other amount as may be prescribed by the Code from time to time), such excess Options will be treated as Nonqualified Stock Options. The determination will be made by taking Incentive Stock Options into account in the order in which they were granted. If such excess only applies to a portion of an Incentive Stock Option, the Committee, in its discretion, will designate which Shares will be treated as Shares to be acquired upon exercise of an Incentive Stock Option.

6.2) Option Agreement. Each Option grant shall be evidenced by an Option agreement that shall specify the Participant, the Option exercise price, the duration of the Option, the number of Shares to which the Option pertains, and such other provisions, including vesting, as the Committee shall determine. If not specified by the Committee at the time an Option is granted, such Option shall vest with respect to twenty-five percent (25%) of the Options on the first anniversary of the date of grant and with respect to two and 83/1,000 percent (2.083%) of the Options beginning thirty (30) days immediately following the first anniversary of the date of grant and continuing on the same day of each month for the next thirty-five (35) months thereafter (in each case, rounding up to the next whole number of shares).

6.3) Option Exercise Price. The Option exercise price per share of Stock covered by the Option shall be determined by the Committee, but may not be less than the Fair Market

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Value of the Stock on the date the Option is granted; provided, however, that the exercise price of any Incentive Stock Option granted to an employee who, on the date of execution of the Option agreement owns more than ten percent (10%) of the total combined voting power of all series of Stock then outstanding, shall be at least one hundred ten percent (110%) of the Fair Market Value of a Share on the date of execution of the Option agreement.

6.4) Duration of Options. No Option may be exercised after ten (10) years from the date on which the Option was granted. If an earlier expiration date is not specified by the Committee at the time of grant, each Option shall expire at the close of business on the tenth (10th) anniversary of the date of grant. The previous provisions of this Section 6.4 notwithstanding, each Incentive Stock Option shall expire no later than at the close of business on the date preceding the tenth (10th) anniversary of the date of grant, and each Incentive Stock Option granted to an employee who, on the date of execution of the Option Agreement owns more than ten percent (10%) of the total combined voting power of all series of Stock then outstanding, shall expire no later than the close of business on the date preceding the fifth (5th) anniversary of the date of grant.

6.5) Exercise of Options. Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for all Participants. All Options within a single grant need not be exercised at one time.

6.6) Manner of Exercise of Options. An Option may be exercised in whole or in part, at such time or times, and with such rights with respect to such Shares of Stock, as provided in the applicable Option agreement. An Option shall be exercisable only by: (i) written notice to the Company of intent to exercise the Option with respect to a specified number of Shares of Stock; (ii) tendering to the Company the original Option agreement (or a replacement Option



agreement satisfactory to the Committee); and (iii) payment to the Company of the exercise price for the number of Shares of Stock with respect to which the Option is then exercised. Except as set forth in the next sentence, payment of the exercise price may be made in any of the following manners:

- (a) cash, including certified check, bank draft or postal or express money order;
- (b) personal check (provided that if payment of the exercise price is made by personal check and such personal check is not timely paid by the drawer's bank, such payment shall be deemed not to have been made and any Shares issued upon such exercise shall be deemed void and never issued);
- (c) by surrender for cancellation of Shares of Stock which:
  - (1) were acquired by the Participant (or person exercising the Option) other than by exercise of an Option;
  - (2) were acquired by the Participant (or person exercising the Option) upon exercise of an Option where the Option Shares being surrendered have been held by the Participant (or person exercising the Option) for at least six months after such exercise; or

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- (3) were acquired by the Participant (or person exercising the Option) upon exercise of an Option where the Option Shares being surrendered have been held by the Participant (or person exercising the Option) for six months or less after such exercise but only if the Participant (or person exercising the Option) has obtained prior approval of the specific surrender (such approval to specify at least the date of grant of the Option being exercised, the dates of grant and exercise of the Option pursuant to which Shares to be surrendered were acquired, and the number of Option Shares to be surrendered) by the Committee;

and which have a Fair Market Value equal to the exercise price of the Options being exercised (if the Shares surrendered have a Fair Market Value in excess of the exercise price of the Options being exercised, the Company shall promptly pay to the Participant or person exercising the Option an amount equal to the excess of such Fair Market Value over the exercise price, not to exceed the Fair Market Value of one Share); or

- (d) by any other method of payment which the Committee shall approve before, at, or after the date of grant of such Options.

An Option shall be deemed to have been exercised immediately prior to the close of business on the date the Company is in receipt of the original Option agreement, written notice of intent to exercise the Option, and payment for the number of Shares being acquired upon exercise of the Option. The Participant shall be treated for all purposes as the holder of record of the Option Stock as of the close of business on such date, except where Shares are held for unpaid withholding taxes. As promptly as practicable on or after such date, the Company shall issue and deliver to the Participant a certificate or certificates for the Option Stock issuable upon such exercise; provided, however, that such delivery shall be deemed effected for all purposes when the Company, or the stock transfer agent for the Company, shall have deposited such certificates in the United States mail, postage prepaid, addressed to the Participant at the address specified in the written notice of exercise.

Notwithstanding the foregoing listing of permissible manners of payment of exercise price, the Committee shall have the right from time to time to cancel, limit or suspend as to any one, some, or all Option(s) and as to any one, some, or all Participants, the right to make payment under any one or more manners of payment (other than the payment by cash, certified check, bank draft or postal or express money order), including other methods of payment previously approved by the Committee under the authority granted in subsection (d) of this Section 6.6.

There shall be no exercise at any one time for fewer than one hundred (100) Shares (or such lesser number of Shares as the Committee may from time to time determine in its discretion) or all of the remaining Shares then purchasable by the Participant or person exercising the Option.

When Shares of Stock are issued pursuant to the exercise of an Option, the fact of such issuance shall be noted on the Option agreement by the Company before the Option agreement is returned. When all Shares of Stock covered by the Option agreement have been issued, or the Option shall expire, the Option agreement shall be canceled and retained by the Company.

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6.7) Restrictions on Stock Transferability. The Committee shall impose such restrictions on any Shares acquired pursuant to the exercise of an Option under the Plan as it may deem advisable, including, without limitation, restrictions under applicable Federal securities law, under the requirements of any stock exchange upon which such Shares are then listed and under any blue sky or state securities laws applicable to such Shares.

6.8) Termination Due to Death or Disability. If a Participant ceases to be a director, officer, employee or Contractor by reason of death, any of such Participant's outstanding Options which were not vested and exercisable on his date of death shall immediately become 100% vested, and all of the Participant's outstanding Options shall be exercisable at any time prior to the expiration date of the Options, but only within twelve (12) months following the date of death, whichever period is shorter. Options may be exercised by such person or persons as shall have acquired the Participant's rights under the Option pursuant to Article 10 or, in the absence of an effective beneficiary designation, by will or by the laws of descent and distribution.

If a Participant ceases to be a director, officer, employee or Contractor by reason of Disability, any of such Participant's outstanding Options which were not vested and exercisable on the date the Committee determines that the Participant has incurred a Disability shall immediately become 100% vested, and all of the Participant's outstanding Options shall be exercisable at any time prior to the expiration date of the Options, but only within twelve (12) months following the date of Disability as determined by the Committee, whichever period is shorter.

Notwithstanding the foregoing, the Committee may, for any Participant, in its sole discretion, lengthen the exercise period of any Nonqualified Option for a period which does not exceed the Option's expiration date, if it deems this is in the best interest of the Company.

6.9) Termination for Other Reasons. If a Participant ceases to be a director, officer, employee or Contractor for any reason other than death, Disability or for Cause:

(a) Any of such Participant's outstanding Nonqualified Options which were then vested and exercisable shall be exercisable at any time prior to the expiration date of such Options, but only within twelve (12) months following the date of his termination as a director, officer, employee or Contractor, whichever period is shorter, and

(b) Any of such Participant's outstanding Incentive Stock Options which were then vested and exercisable shall be exercisable at any time prior to the expiration date of such Options, but only within three (3) months following the date of his termination as a director, officer, employee or Contractor, whichever period is shorter; provided, however, that in the event of the Participant's death during the three (3) month period following the date of his termination as a director, officer, employee or Contractor, and prior to the expiration date of such Options, any such Options then vested and unexercised may be exercised within twelve (12) months following the date of termination by the person or persons who shall have acquired the Participant's rights thereunder pursuant to Article 10 or, in the absence of an effective beneficiary designation, by will or the laws of descent and distribution.

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Any Options not then vested and exercisable shall be forfeited back to the Company.

If the Participant's position as a director, officer, employee or Contractor terminates for Cause, all of the Participant's outstanding Options, whether or not then vested, shall be immediately forfeited back to the Company.

6.10) Nontransferability/Permitted Transfers of Options. Except as permitted by subsections (b) and (c) below, each Option granted hereunder shall, by its terms, not be transferable by the Participant and shall be, during the Participant's lifetime, exercisable only by the Participant or Participant's guardian or legal representative. Except as permitted by subsections (b) and (c) below, each Option granted under the Plan and the rights and privileges thereby conferred shall not be transferred, assigned or pledged in any way (whether by operation of law or otherwise), and shall not be subject to execution, attachment or similar process. Upon any attempt to so transfer, assign, pledge, or otherwise dispose of the Option, or of any right or privilege conferred thereby, contrary to the provisions of the Option or the Plan, or upon levy of any attachment or similar process upon such rights and privileges, the Option, and such rights and privileges, shall immediately become null and void.

(a) Each Incentive Stock Option granted hereunder shall, by its terms, be transferable only by will or pursuant to the laws of descent and distribution, and shall be, during the Participant's lifetime, exercisable only by the Participant or his guardian or legal representative.

(b) Each Nonqualified Stock Option granted hereunder shall, by its terms, be transferable:

- (1) by the Participant to a Participant's Family Member (or to a trust in which the Participant's Family Member or Family Members have more than fifty percent (50%) of the beneficial interest) by a bona fide gift or pursuant to a domestic relations order in settlement of marital property rights;
- (2) by will or pursuant to the laws of descent and distribution; or
- (3) as otherwise permitted pursuant to the rules or regulations adopted by the Securities and Exchange Commission ("SEC") under the Securities Act or the interpretations of such rules and regulations as announced by the SEC from time to time.

Any permitted transfer shall be effective only when accepted by the Company subject to the Company receiving documentation reasonably satisfactory to it of such gift, transfer pursuant to domestic relations order, or transfer pursuant to will or pursuant to the laws descent and distribution. Upon effectiveness of any permitted transfer, the rights under any Option shall be exercisable only by the permitted transferee or such transferee's guardian or legal representative. Except as permitted by this subsection, each Option granted under the Plan and the rights and privileges thereby conferred shall not be further transferred, assigned or pledged in any way (whether by operation of law or otherwise), and shall not be subject to execution, attachment or similar process. Upon any attempt to so further transfer, further assign, pledge, or otherwise further dispose of the Option, or of

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any right or privilege conferred thereby, contrary to the provisions of the Option or the Plan, or upon levy of any attachment or similar process upon such rights and privileges, the Option, and such rights and privileges, shall immediately become null and void. No permitted transfer shall cause any change in the terms of any Option except the identity of the person(s) entitled to exercise such Option and to receive the common Stock issuable upon exercise of the Option. Without limiting the generality of the foregoing, any Option shall be subject to termination upon the termination as a director, officer, employee or Contractor, death or Disability of the Participant to whom the Option was originally granted by the Company without reference to the employment, death or Disability of any permitted transferee. In the event of any transfer of an Option, the obligations of the Company owed to the Participant shall be owed to the transferee and references in this Plan or in any Option Agreement to the Participant shall, unless the context otherwise requires, refer to the transferee.

## ARTICLE 7.

### STOCK APPRECIATION RIGHTS

7.1) Grant of Stock Appreciation Rights. Subject to the terms and provisions of the Plan, Stock Appreciation Rights may be granted to Participants, at the discretion of the Committee, exercisable in any of the following forms as designated by the Committee at the time of grant:

- (a) in lieu of Options;
- (b) in addition to Options;

- (c) independent of Options; or
- (d) in any combination of (a), (b), or (c).

The Committee shall have the sole discretion, subject to the requirements of the Plan, to determine the actual number of Shares subject to SARs granted to any Participant. The Committee may specify the period of time over which vesting shall occur, and may in its discretion further provide for the acceleration of vesting upon the attainment of such goals as the Committee may determine in its discretion. The exercise price of a SAR shall not, however, be less than the Fair Market Value of a share of Stock on the date of grant.

7.2) Stock Appreciation Rights Agreement. Each grant of a SAR, and the terms and conditions governing the exercise of the SAR, shall be evidenced by a SAR agreement. If not specified by the Committee at the time a SAR is granted, such SAR shall vest with respect to twenty-five percent (25%) of the SARs on the first anniversary of the date of grant and with respect to two and 83/1,000 percent (2.083%) of the SARs beginning thirty (30) days immediately following the first anniversary of the date of grant and continuing on the same day of each month for the next thirty-five (35) months thereafter (in each case, rounding up to the next whole number of SARs).

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Option Stock with respect to which a SAR shall have been exercised may not be subject again to an Award under the Plan.

7.3) Exercise of Stock Appreciation Rights. SARs granted in lieu of Options may be exercised for all or part of the Shares subject to the related Option upon the surrender of the related Options representing the right to purchase an equivalent number of Shares. The SAR may be exercised only with respect to the Shares for which its related Option is then exercisable.

- (a) SARs granted in addition to Options shall be deemed to be exercised upon the exercise of the related Options.
- (b) Subject to Section 7.1, SARs granted independently of Options may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes upon the SARs, including, but not limited to, a corresponding proportional reduction in previously granted Options.

7.4) Payment of Stock Appreciation Right Amount. Upon exercise of the SAR, the holder shall be entitled to receive payment of an amount determined by multiplying:

- (a) The difference between: (i) the Fair Market Value of a Share on the date of exercise and (ii) the exercise price established by the Committee on the date of grant; by
- (b) The number of Shares with respect to which the SAR is exercised.

7.5) Form and Timing of Payment. Payment to a Participant, upon SAR exercise, will be made in cash or stock, at the discretion of the Committee, as soon as administratively possible after exercise.

7.6) Term of Stock Appreciation Rights. The term of a SAR granted under the Plan shall be determined by the Committee, but shall not exceed ten (10) years. If not specified by the Committee at the time of grant, each SAR shall expire at the close of business on the date preceding the tenth (10th) anniversary of the date of grant.

7.7) Termination Due to Death or Disability. If a Participant ceases to be a director, officer, employee or Contractor by reason of death, any of such Participant's outstanding SARs which were not vested and exercisable on his date of death shall immediately become 100% vested, and all of the Participant's outstanding SARs shall be exercisable at any time prior to the expiration date of the SARs, but only within twelve (12) months following the date of death, whichever period is shorter. SARs may be exercised by such person or persons as shall have acquired the Participant's rights under the SAR pursuant to Article 10 or, in the absence of an effective beneficiary designation, by will or by the laws of descent and distribution.

If a Participant ceases to be a director, officer, employee or Contractor by reason of Disability, any of such Participant's outstanding SARs which were not vested and exercisable on the date the Committee determines that the Participant has incurred a Disability shall immediately become 100% vested, and all of the Participant's outstanding SARs shall be exercisable at any time prior to the expiration date of the SARs, but only within twelve (12) months following the date of Disability as determined by the Committee, whichever period is shorter.

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Notwithstanding the foregoing, the Committee may, for any Participant, in its sole discretion, lengthen the exercise period of any SAR for a period which does not exceed the SAR's expiration date, if it deems this is in the best interest of the Company.

7.8) Termination for Other Reasons. If Participant ceases to be a director, officer, employee or Contractor for any reason other than death, Disability or for Cause, any of such Participant's outstanding SARs which were then vested and exercisable shall be exercisable at any time prior to the expiration date of such SARs, but only within twelve (12) months following the date of his termination as a director, officer, employee or Contractor, whichever period is shorter. Any SARs not then vested and exercisable shall be forfeited back to the Company.

If the Participant's position as an officer, employee or Contractor shall terminate for Cause, all of the Participant's outstanding SARs, whether or not then vested, shall be immediately forfeited back to the Company.

7.9) Nontransferability of Stock Appreciation Rights. No SAR granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, and all SARs granted to a Participant under the Plan shall be exercisable during his lifetime only by such Participant.

## RESTRICTED STOCK

8.1) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock under the Plan to such Participants, in such amounts, with such purchase price (if any) and under such other conditions as it shall determine. The Committee shall specify the period of time over which the lapse of a Period of Restriction established pursuant to Sections 8.2, 8.3, and 8.4 (i.e., the period of time over which such Shares of Restricted Stock shall vest) shall occur, and may in its discretion further provide for the acceleration of the lapse of a Period of Restriction upon the attainment of such goals as the Committee may determine in its discretion. Restricted Stock shall at all times for purposes of the Plan be valued at its Fair Market Value without regard to restrictions. If not specified by the Committee at the time of grant of Restricted Stock, the Period of Restriction shall lapse with respect to 25% of the number of shares of Restricted Stock granted on the first anniversary of the date of grant and with respect to two and 83/1,000 percent (2.083%) of the shares of Restricted Stock granted beginning thirty (30) days immediately following the first anniversary of the date of grant and continuing on the same day of each month for the next thirty-five (35) months thereafter (in each case, rounding up to the next whole number of shares of Restricted Stock).

8.2) Restricted Stock Agreement. Each Restricted Stock grant shall be evidenced by a Restricted Stock agreement that shall specify the Period(s) of Restriction, the number of Shares of Restricted Stock granted, and such other provisions as the Committee shall determine.

8.3) Transferability. Except as otherwise provided in this Article 8, the Shares of Restricted Stock granted hereunder may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the termination of the applicable Period of Restriction. Upon any

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attempt to transfer, assign, pledge, or otherwise dispose of Shares of Restricted Stock, or any right or privilege conferred thereby, contrary to the provisions of the Restricted Stock agreement or the Plan, upon levy of an attachment or similar process upon such rights or privileges, the Shares of Restricted Stock shall immediately become forfeited to the Company. All rights with respect to the Restricted Stock granted to a Participant under the Plan shall be exercisable during his lifetime only by such Participant.

8.4) Other Restrictions. The Committee may impose such other restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable, and the Committee may legend certificates representing Restricted Stock to give appropriate notice of such restrictions.

8.5) Certificate Legend. In addition to any legends placed on certificates pursuant to Section 8.4, each certificate representing Shares of Restricted Stock granted pursuant to the Plan shall bear the following, or substantially similar, legend:

“The sale or other transfer of the shares of stock represented by this certificate, whether voluntary, involuntary, or by operation of law, is subject to certain restrictions on transfer set forth in The BioDrain Medical, Inc. 2008 Equity Incentive Plan, in the rules and administrative procedures established pursuant to such Plan, and in a Restricted Stock agreement dated \_\_\_\_\_. A copy of the Plan, such rules and procedures, and such Restricted Stock agreement may be obtained from the Secretary of BioDrain Medical, Inc.”

8.6) Removal of Restrictions. Except as otherwise provided in this Article 8, Shares of Restricted Stock granted under the Plan shall become freely transferable by the Participant after the last day of the Period of Restriction. Once the Shares are released from the restrictions, the Participant shall be entitled to have the legend required by Section 8.5 removed from his Stock certificate.

8.7) Voting Rights; Shareholder Rights Plan. During the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, and shall be covered by the provisions of Company’s Shareholder Rights Plan.

8.8) Dividends and Other Distributions. During the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder shall be entitled to receive all dividends and other distributions paid with respect to those Shares while they are so held. If any such dividends or distributions are paid in Shares, those Shares shall be subject to the same restrictions on transferability as the Shares of Restricted Stock with respect to which they were paid.

8.9) Termination Due to Death or Disability. If a Participant ceases to be a director, officer, employee or Contractor because of his death or his Disability during a Period of Restriction, any remaining period of the Period of Restriction applicable to the Restricted Stock

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shall automatically terminate and, except as otherwise provided in Section 8.4, the Shares of Restricted Stock shall thereafter be free of restrictions and be fully transferable.

8.10) Termination for Other Reasons. If a Participant ceases to be a director, officer, employee or Contractor for any reason other than for death or Disability during a Period of Restriction, then all Shares of Restricted Stock still subject to restrictions as of the date of such termination shall automatically be forfeited and returned to the Company and any amounts paid by the Participant to the Company for the purchase of such Shares shall be returned to the Participant; provided, however, that the Committee, in its sole discretion, may waive or modify the automatic forfeiture of any or all such Shares of Restricted Stock as it deems appropriate.

8.11) Election under Code Section 83(b). As a condition to the receipt of Restricted Stock, the Participant shall be deemed to have agreed, and shall confirm such agreement in writing as requested by the Committee, that he will not exercise the election permitted under Code Section 83(b) without informing the Company of his election within ten (10) days of such election. If a Participant fails to give timely notification to the Company, the Committee may, in its discretion, cause the forfeiture of some portion of the Shares of Restricted Stock with respect to which the election was made.

## ARTICLE 9.

### CHANGE IN CONTROL

9.1) Acceleration of Vesting; Termination of Period of Restriction. Notwithstanding any requirements for vesting, time of exercisability or Period of Restriction of any Award as set forth in any Award agreement or as otherwise determined by the Committee, any Award granted under this Plan, to the extent not already terminated, shall become vested and immediately exercisable, and any Period of Restriction shall terminate, upon a Change in Control.

9.2) No Limitation on Exercise Period. Nothing in Section 9.1 shall limit or shorten the period during which any Option or SAR is exercisable. If an Option or SAR provides for exercisability during a limited period after a contingency is satisfied, and the initial exercisability of the Option or SAR is accelerated by means of Section 9.1, the expiration of such Option or SAR shall be delayed until the contingency has been satisfied and the Option or SAR shall thereafter remain exercisable for the balance of the period initially contemplated by the grant. (For example, if an Option or SAR is granted providing that it shall be exercisable for a period of twelve (12) months after a triggering event, and such Option or SAR is subject to the provisions of Section 9.1 providing that it shall become immediately exercisable, it shall thereafter remain exercisable until such triggering event has occurred and twelve (12) months have passed.)

9.3) No Extension of Exercise Period. Any acceleration or extension of exercisability pursuant to Section 9.1 shall not extend such exercisability beyond the expiration or maximum term set forth in the Award agreement.

9.4) Limitation on Payments. Notwithstanding anything in this Article 9 to the contrary, if the Company is then subject to the provisions of Code Section 280G, and if the acceleration of the vesting of an Option or SAR, the termination of a Period of Restriction or the payment of cash in exchange for all or part of an Option or SAR (which acceleration or payment

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could be deemed a "payment" within the meaning of Code Section 280G(b)(2)), together with any other payments which the Participant has the right to receive from the Company or any company that is a member of an "affiliated group" (as defined in Code Section 1504(a) without regard to Code Section 1504(b)) of which the Company is a member, would constitute a "parachute payment" (as defined in Code Section 280G(b)(2)), then the payments to the Participant shall be reduced to the largest amount as will result in no portion of such payments being subject to the excise tax imposed by Code Section 4999.

## ARTICLE 10.

### BENEFICIARY DESIGNATION

Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively and who may include a trustee under a will or living trust) to whom any benefit under the Plan is to be paid in case of his death. Each designation will revoke all prior designations by the same Participant, shall be in a form prescribed by the Committee, and will be effective only when filed by the Participant in writing with the Committee during his lifetime. In the absence of any such designation or if all designated beneficiaries predecease the Participant, benefits remaining unpaid at the Participant's death shall be paid pursuant to the Participant's will or by the laws of descent and distribution.

## ARTICLE 11.

### RIGHTS OF PARTICIPANTS

11.1) Participation. No director, officer, employee or Contractor shall have a right to be selected as a Participant, or, having been so selected, to be selected again as a Participant.

11.2) No Implied Rights. Neither the establishment of the Plan nor any amendment thereof shall be construed as giving any Participant, beneficiary, or any other person any legal or equitable right unless such right shall be specifically provided for in the Plan or conferred by specific action of the Committee in accordance with the terms and provisions of the Plan. Except as expressly provided in this Plan, neither the Company nor any of its Parents nor any of its Subsidiaries shall be required or be liable to make any payment under the Plan.

11.3) No Right to Company Assets. Neither the Participant nor any other person shall acquire, by reason of the Plan, any right in or title to any assets, funds or property of the Company or any of its Parents or any of its Subsidiaries whatsoever including, without limiting the generality of the foregoing, any specific funds, assets, or other property which the Company or any of its Parents or any of its Subsidiaries, in its sole discretion, may set aside in anticipation of a liability hereunder. Any benefits which become payable hereunder shall be paid from the general assets of the Company or the applicable Parent or the applicable Subsidiary. The Participant shall have only a contractual right to the amounts, if any, payable hereunder unsecured by any asset of the Company or any of its Parents or any of its Subsidiaries. Nothing contained in the Plan constitutes a guarantee by the Company or any of its Parents or any of its Subsidiaries that the assets of the Company or the applicable Parent or the applicable Subsidiary shall be sufficient to pay any benefit to any person.

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## ARTICLE 12.

### AMENDMENT, MODIFICATION, AND TERMINATION

12.1) Amendment, Modification, and Termination. This Plan shall terminate at such time as the Board of Directors may determine; provided, however, that no Award may be granted under the Plan after the tenth anniversary of its effective date. Any termination shall not affect any Awards then outstanding under the Plan. At any time and from time to time, the Board may amend or modify the Plan. If the approval of the shareholders of the Company is required by the Code, by the insider trading rules of Section 16 of the Exchange Act, by any national securities exchange or system on which the Stock is then listed or reported (such as Nasdaq), or by any regulatory body having jurisdiction with respect hereto, no amendment or modification which:

- (a) increases the total amount of Stock which may be issued under this Plan, except as provided in Section 4.3; or
- (b) changes the class of Persons eligible to participate in the Plan;
- (c) materially increases the cost of the Plan or materially increases the benefits to Participants;

- (d) extends the maximum period after the date of grant during which Options or Stock Appreciation Rights may be exercised; or
- (e) re-prices any previously granted Award by lowering the exercise price or canceling any previously granted Award with a subsequent replacement or re-grant of that same Award with a lower exercise price, except as provided in Section 4.3;

shall be effective prior to the date that such amendment or modification has been approved by both the Board and the shareholders of the Company.

12.2) Awards Previously Granted. No termination, amendment or modification of the Plan shall, other than pursuant to Section 4.3 hereof, in any manner adversely affect any Award theretofore granted under the Plan, without the written consent of the Participant. Except as required pursuant to Section 4.3, no previously granted Option shall be re-priced by lowering the exercise price thereof, nor shall a previously granted Option be cancelled with a subsequent replacement or re-grant of that same Option with a lower exercise price, without prior approval of the shareholders of the Company.

#### ARTICLE 13.

#### GOVERNMENT REGULATION AND REGISTRATION OF SHARES

13.1) General. The Plan, and the grant and exercise of Awards hereunder, and the Company's obligations under Awards, shall be subject to all applicable Federal and state laws, rules and regulations and to the approvals of any regulatory or governmental agency as may be required.

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13.2) Compliance as an SEC Registrant. The obligations of the Company with respect to Awards shall be subject to all applicable laws, rules and regulations and such approvals by any governmental agencies as may be required, including without limitation, the Securities and Exchange Commission, and the rules and regulations of any securities exchange or association on which the Company's common stock may be listed or quoted. If the common stock of the Company becomes registered under the Exchange Act, and for so long as it remains registered, the Company shall use its reasonable efforts to comply with any legal requirements (a) to maintain a registration statement in effect under the Securities Act with respect to all Shares of the applicable class or series of Stock that may be issued to Participants under the Plan and (b) to file in a timely manner all reports required to be filed by it under the Exchange Act.

#### ARTICLE 14.

#### SUCCESSORS

All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business and/or assets of the Company.

#### ARTICLE 15.

#### MISCELLANEOUS

15.1) Rights as Shareholder. A Participant granted a SAR under the Plan shall not by reason thereof have any rights of a shareholder of the Company, and a Participant granted an Option under the Plan shall not by reason thereof have any rights of a shareholder of the Company with respect to the shares covered by such Option until the exercise of such Option is effective.

15.2) No Obligation to Exercise Option or SAR; Maintenance of Relationship. The granting of an Option or SAR shall impose no obligation upon the Participant to exercise such Option or SAR. Nothing in the Plan or in any Award agreement entered into pursuant hereto shall be construed to confer upon a Participant any right to employment, service as a consultant, or as a member of the Company's or any Parent's or Subsidiary's Board of Directors or interfere in any way with the right of the Company to terminate his or her relationship with the Company at any time.

15.3) Withholding Taxes. Whenever, under the Plan, Shares are to be issued upon exercise of the Options granted hereunder and prior to the delivery of any certificate or certificates for said shares by the Company, and whenever a Period of Restriction lapses with respect to Restricted Stock, the Company shall have the right to require the Participant to remit to the Company an amount sufficient to satisfy any federal and state withholding or other taxes resulting therefrom. In the event that withholding taxes are not paid by the date of exercise of an Option or the lapse of a Period of Restriction, to the extent permitted by law, the Company shall have the right, but not the obligation, to cause such withholding taxes to be satisfied by reducing the number of Shares deliverable upon the exercise of the Option, by forfeiting Shares of Restricted Stock, or by offsetting such withholding taxes against amounts otherwise due from the

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Company to the Participant as compensation, fees or otherwise. If withholding taxes are paid by reduction of the number of Shares deliverable to Participant or the forfeiture of Shares of Restricted Stock, such Shares shall be valued at the Fair Market Value as of the business day preceding the date of exercise of the Option or the lapse of the Period of Restriction.

15.4) Purchase for Investment; Rights of Holder on Subsequent Registration. Unless the Shares to be issued upon exercise of an Option or granted as Restricted Stock have been effectively registered under the Securities Act, the Company shall be under no obligation to issue any such Shares unless the Participant shall give a written representation and undertaking to the Company which is satisfactory in form and scope to counsel for the Company and upon which, in the opinion of such counsel, the Company may reasonably rely, that he is acquiring the Shares to be issued to him or her for his or her own account as an investment and not with a view to, or for sale in connection with, the distribution of any such Shares, and that he or she will make no transfer of the same except in compliance with any rules and regulations in force at the time of such transfer under the Securities Act, or any other applicable law, and that if Shares are issued without such registration a legend to this effect may be endorsed on the securities so issued and a "stop transfer" restriction may be placed in the stock transfer records of the Company. In the event that the Company shall, nevertheless, deem it necessary or desirable to register under the Securities Act or other applicable statutes any such Shares, or to qualify any such Shares for exemption from the Securities Act or other applicable statutes, then the Company shall take such action at its own expense and may require from each participant such information in writing for use in any registration statement, prospectus, preliminary

prospectus, or offering circular as is reasonably necessary for such purpose and may require reasonable indemnity to the Company and its officers and directors from such holder against all losses, claims, damages, and liabilities arising from such use of the information so furnished and caused by any untrue statement of any material fact required to be stated therein or necessary to make the statement therein not misleading in light of the circumstances under which they were made.

15.5) Modification of Outstanding Awards. The Committee may accelerate the exercisability of an outstanding Option or SAR or reduce the Period of Restriction of outstanding Restricted Stock, and may authorize modification of any outstanding Award with the consent of the Participant when and subject to such conditions as are deemed to be in the best interests of the Company and in accordance with the purposes of the Plan; provided however, that except as provided in Section 4.3 hereof, no previously granted Option will be repriced by lowering the exercise price thereof, nor will a previously granted Option be cancelled with a subsequent replacement or regrant of that same Option with a lower exercise price, without the prior approval of the shareholders of the Company.

15.6) Liquidation. Upon the complete liquidation of the Company, any unexercised Options or SARs theretofore granted under this Plan shall be deemed canceled, except as otherwise provided in Section 4.3 in connection with a merger, consolidation or reorganization of the Company.

15.7) Market Standoff. To the extent requested by the Corporation and any underwriter of securities of the Corporation in connection with a firm commitment underwriting, no holder of any shares of Option Stock will sell or otherwise transfer any such shares not included in such underwriting, or not previously registered pursuant to a registration statement filed under the

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Securities Act, during the one hundred and eighty (180) day period following the effective date of the registration statement filed with the Securities and Exchange Commission in connection with such offering.

15.8) Restrictions on Issuance of Shares. Notwithstanding provisions of this Plan to the contrary, the Company may delay the issuance of Shares covered by the exercise of any Option and the delivery of a certificate for such Shares until one of the following conditions shall be satisfied:

(a) The Shares with respect to which the Option has been exercised are at the time of the issue of such Shares effectively registered under applicable Federal and state securities acts as now in force or hereafter amended; or

(b) A no-action letter in respect of the issuance of such Shares shall have been obtained by the Company from the Securities and Exchange Commission and any applicable state securities commissioner; or

(c) Counsel for the Company shall have given an opinion, which opinion shall not be unreasonably conditioned or withheld, that such Shares are exempt from registration under applicable federal and state securities acts as now in force or hereafter amended. It is intended that all exercise of Options shall be effective, and the Company shall use its best efforts to bring about compliance with the above conditions within a reasonable time, except that the Company shall be under no obligation to cause a registration statement or a post-effective amendment to any registration statement to be prepared at its expense for the purpose of covering the issue of Shares in respect of which any Option may be exercised.

## ARTICLE 16.

### REQUIREMENTS OF LAW

16.1) Requirements of Law. The granting of Awards and the issuance of Shares of Stock under this Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

16.2) Governing Law. The Plan, and all agreements hereunder, to the extent not covered by Federal law, shall be construed in accordance with and governed by the laws of the State of Minnesota without giving effect to the principles of the conflicts of laws.

BIODRAIN MEDICAL, INC.  
(A Minnesota Corporation)

Dated: October 31, 2008

By: /s/ Kevin R. Davidson  
Kevin R. Davidson  
Its: President

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## COMMERCIAL LEASE

This Commercial Lease, executed September 16, 2008, by and between **ROSEVILLE PROPERTIES MANAGEMENT COMPANY**, a Minnesota Corporation, as agent for Lexington Business Park, LLC, a Minnesota limited liability company ("Landlord") and **BIODRAIN MEDICAL, INC., a Minnesota Corporation** ("Tenant").

### DEFINITIONS:

**"Building"** -- That certain office/warehouse building on real property located in the City of Mendota Heights, County of Dakota, State of Minnesota, containing approximately 42,600 square feet and commonly addressed as 2060 Centre Pointe Boulevard, Mendota Heights, Minnesota 55120 (*See Exhibit A*).

**"Demised Premises"** - That certain portion of the Building addressed Suite 7 signified on Exhibit A and shown on Exhibit B. The Demised Premises includes a non-exclusive easement for access to Common Areas as defined below, and all licenses and easements appurtenant to the Demised Premises. Landlord and Tenant stipulate and agree for purposes of this Lease Agreement, including the calculation of Additional Rent, that the square footage of the Demised Premises is 3,593 square feet.

**"Common Areas"** – The term "Common Area" refers to all areas used non-exclusively by Tenant and other tenants in the Building, including, but not limited to, corridors, lavatories, driveways, truck docks, parking lots and landscaped areas. Common Areas are available to Tenant and its employees, agents, customers, and invitees for reasonable use in common with other tenants, their employees, agents, customers and invitees, subject to reasonable rules and regulations set forth by Landlord. Landlord will ensure that at least 5 parking stalls are available within the Common Area, on an unreserved basis, for each 1,000 square feet of the Demised Premises.

**In consideration for the Base Rent, Additional Rent and any additional consideration outlined in this Lease, Landlord leases to Tenant the Demised Premises under the following conditions:**

### 1.0 TERM OF LEASE AND POSSESSION:

Landlord gives and Tenant takes possession of Demised Premises for the term (the "Term") of **Five (5) years** beginning November 1, 2008 (the "Commencement Date"), and ending October 31, 2013 (the "Expiration Date"), unless terminated earlier as herein provided.

Unless otherwise stated in this Lease, Landlord shall deliver possession of the Demised Premises to Tenant in its "as-is" condition within five (5) business days following the date of lease execution, but delivery of possession prior to the Commencement Date shall not affect the expiration date of this Lease. Tenant's possession of the Demised Premises, unless Tenant delivers written notice to Landlord within ten (10) business days of possession, shall be conclusive evidence that the Demised Premises are in good and satisfactory condition. Any occupancy by Tenant prior to the Commencement Date commences all mutual terms and obligations of this Lease, except Tenant's obligation for Additional Rent pursuant to Section 3.0 shall not begin until October 1, 2008, and Base Rent pursuant to Section 2.0 shall begin November 1, 2008. Landlord shall have no responsibility or liability for loss or damage to fixtures, facilities or equipment installed or left on the Demised Premises, except to the extent caused by Landlord's, or its agents', employees' or contractors' gross negligence or willful misconduct.

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### 2.0 BASE RENT:

Landlord is due and Tenant shall pay Landlord, base rent ("Base Rent") as scheduled:

Months 1 through 12	\$3,000.00 per month
Months 13 through 24	\$2,395.33 per month
Months 25 through 36	\$2,467.19 per month
Months 37 through 48	\$2,541.20 per month
Months 49 through 60	\$2,617.45 per month

### 3.0 ADDITIONAL RENT:

Tenant shall reimburse to Landlord for the month of October, 2008, and thereafter, monthly, beginning November 1, 2009 (Tenant is not responsible for Additional Rent during Months 1 through 12 of this Lease) and continuing throughout the Term of the Lease, Tenant's Share (as that term is hereinafter defined) of the following Additional Rent:

Common Area Maintenance (CAM) expenses, Real Estate Taxes/Assessments, any not separately metered Utilities as contemplated in Section 3.3 below, and any Miscellaneous Charges or Reimbursements.

Landlord may estimate annual CAM and Real Estate Taxes/Assessments expenses as a basis for reimbursement for any calendar year and invoice in monthly installments (*see Exhibit C*). During the Term of Lease and/or any extension of this Lease, Landlord, within 120 days of each calendar year end, will provide to Tenant a written statement of actual CAM and Real Estate Taxes/Assessments expenses. If Tenant has underpaid its share of any of these expenses, Tenant shall reimburse Landlord as invoiced within ten (10) days after receipt of such invoice. If Tenant has overpaid its share of any of these expenses, Landlord will credit such amount against the most current monthly invoice. If the Term of Lease is less than one calendar year any reimbursement(s) will be prorated based on time of occupancy for such year. Upon prior written notice to Landlord, Tenant shall have the opportunity to audit the actual CAM and Real Estate Taxes/Assessments expenses statement for a period of 90 days after receipt of said statement. Tenant waives its right to audit the actual CAM and Real Estate Taxes/Assessments expenses if Tenant fails to exercise such right during said 90 day period.

Tenant's Share of all Additional Rent will be determined by using 3,593 square feet as the square footage of the Demised Premises, which includes Tenant's proportionate share of any rooms considered common areas to the Building, divided by the total square footage of the Building to obtain an annual cost per square



Landlord, at its election, may invoice for reimbursement(s) of any Utility usage as contemplated in Section 3.3 below.

### **3.1 COMMON AREA MAINTENANCE EXPENSES (CAM):**

Common Area Maintenance (CAM) shall include but not be limited to maintenance, repair, replacement and care of all lighting, plumbing, roofs, parking surfaces, landscaped areas, signs, snow removal, non-structural repair and maintenance of the exterior of the Building, costs of equipment purchased and used for such purposes, cleaning and cleaning supplies for the common areas, insurance premiums, management fees not to exceed five percent (5%) of gross collected rents, wages and fringe benefits of personnel employed for such work. Additionally, during the Term of this Lease, any extension and/or renewal of this Lease, CAM expenses shall include the annual cost or portion allocable to the Building of any capital improvements made to the Building by Landlord which result in a reduction of expenses or required under any

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governmental law or regulation that was not applicable at the time it was constructed. Such costs will be amortized over their useful life and only those portions which occur during the Term will be charged to Tenant.

Notwithstanding the foregoing, CAM shall exclude the following: (i) payments of principal and interest on any mortgage or other encumbrance on the Building; (ii) amounts reimbursable from insurance proceeds, under warranty or by Tenant, any other tenant in the Building or any other third party other than pursuant to a CAM expense provision similar to this Section; (iii) interest, late charges or penalties incurred as a result of Landlord's failure to pay bills in a timely manner (unless such failure is directly related to the failure of Tenant to pay Tenant's Share of any such bill in a timely manner); (iv) leasing or brokerage fees; (v) depreciation; (vi) costs incurred in connection with the transfer or disposition of all or a portion of Landlord's interest in the Building; (vii) costs of providing to other tenants services which are not available to Tenant; (viii) attorneys' fees and other legal costs incurred as a result of defaults by, or litigation or other disputes with, other tenants of the Building; (ix) bad debt expenses or rent loss or reserves for bad debts or rent loss; (x) expenses, including permits, license, design, space planning, and inspections costs, incurred in tenant build-out, renovating or otherwise improving, modifying or decorating, painting or redecorating space for other tenants or other occupants of space; (xi) salaries, wages, benefits, or other compensation of any kind or nature paid to any officer or employee of Landlord (or any subsidiary or affiliate of Landlord) above the grade of building manager; (xii) Rentals and other related expenses incurred in the leasing of air conditioning systems or other equipment ordinarily considered to be of a capital nature, except equipment which is used in providing janitorial services and which is not affixed to the Building; (xiii) Costs associated with the operation of the business of the partnership or entity which constitutes Landlord, or the operation of any parent, subsidiary or affiliate of Landlord, as the same are distinguished from the costs of operation of the Building, including without limitation partnership accounting and legal matters, costs of defending any lawsuits with any mortgagee, costs of selling, syndicating, financing, mortgaging, or hypothecating any of Landlord's interest in the Building, and costs of any disputes between Landlord and its employees or disputes of Landlord with third-party building management; (xiv) the cost of services provided by Landlord's affiliates to the extent that such costs would exceed the costs of such services rendered by unaffiliated third parties on a competitive basis; and (xv) costs of correcting defects in the design or construction of the Building, the major Building systems or the material used in the construction of the Building (including latent defects in the Building or the inadequacy of design of the Building) or in the Building equipment or appurtenances thereto.

### **3.2 REAL ESTATE TAXES AND ASSESSMENTS:**

Real Estate Taxes and Assessments shall mean all Real Estate Taxes, all assessments and any taxes in lieu thereof payable on each calendar year, which may be levied upon or assessed against the Building. Any tax year commencing during any lease year shall be deemed to correspond to such lease year. Special Assessments will be amortized over the longest time period allowable by the taxing authority and only those portions that occur during the Term will be charged to Tenant. In the event the taxing authorities additionally include in such real estate and assessments the value of any improvements made by Tenant, or of machinery, equipment, fixtures, inventory or other personal property or assets of Tenant, then Tenant shall pay all the taxes attributable to such items. Upon Tenant's request, Landlord will furnish a copy of the Real Estate Tax statement.

Landlord reserves, and Tenant hereby assigns to Landlord, the sole and exclusive right to contest, protest, petition for review, or otherwise seek a reduction in the Real Estate Taxes.

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### **3.3 UTILITIES**

Landlord shall provide mains and conduits to supply water, gas, electricity and sanitary sewage to the Building. Tenant shall pay directly, when due, all charges for sewer and water usage, garbage/refuse disposal/removal and recycling, electricity, gas and other fuels, telephone/communication services and/or other utility services or energy source furnished to the Demised Premises during the term of this Lease, or any extension and/or renewal of this Lease which is separately metered. All other such services or sources shall be considered CAM items. If Tenant's usage of any utility that is not separately metered is deemed disproportionate as determined by Landlord, Landlord may elect to submeter and bill Tenant accordingly. Landlord accepts no responsibility for any disruption of any utility service due to accident, natural causes or circumstances beyond Landlord's control and/or the utility provider's inability to deliver said service.

### **3.4 MISCELLANEOUS CHARGES AND REIMBURSEMENTS**

Miscellaneous Charges and Reimbursements shall include, without limitation, reconciliation of Real Estate Taxes/Assessments, CAM and Utilities, service requests facilitated by Landlord at the direction of Tenant, Tenant improvement reimbursements for work requested by Tenant, notes due Landlord and any other miscellaneous charge due Landlord.

### **4.0 COVENANT TO PAY RENT:**

The covenants of Tenant to pay the Base Rent and the Additional Rent are each independent of any other covenant, condition, provision or agreement contained in this Lease. Base Rent and Additional Rent shall be paid without setoff, deduction, demand or counterclaim of any nature whatsoever, unless expressly authorized hereunder. All rents are due and payable, in advance, on the first day of each month during the Term of Lease and any extensions of the Lease to Landlord at:

*2575 North Fairview Avenue, Suite 250  
Roseville, Minnesota 55113*

or such other address as Landlord shall designate to Lessee in writing.

#### **5.0 OVERDUE PAYMENTS:**

All Base Rent and Additional Rent under this Lease and any extension shall be due on the first day of each calendar month, unless otherwise specified. Service charges shall be imposed after the fifth day of each calendar month in the amount five percent (5%) of the outstanding balance due.

#### **6.0 USE:**

The Demised Premises shall be used and occupied by Tenant solely for the purposes of general office, lab, storage or related uses and Tenant agrees that such use shall be in compliance with all applicable laws, ordinances and governmental regulations affecting the Building and Demised Premises. Tenant shall promptly upon discovery discontinue any use of the Demised Premises which is not in compliance with any applicable laws, ordinances or governmental regulations. The Demised Premises shall not be used in such manner that, in accordance with any requirement of law or of any public authority, Landlord shall be obliged on account of the purpose or manner of said use to make any addition or alteration to or in the Building. The Demised Premises shall not be used in any manner which will increase the rates required to be paid for public utility or for fire and extended coverage insurance covering the Demised Premises. Tenant shall occupy the Demised Premises, conduct its business and use reasonable efforts to

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control its agents, employees, invitees and visitors in such a way as is lawful, and reputable and will not permit or create any nuisance, noise, odor, or otherwise which unreasonably interferes with, annoys or disturbs any other tenant in the Building in its normal business operations or Landlord in its management of the Building. Tenant's use of the Demised Premises shall conform to all the Landlord's rules and regulations relating to the use of the Building; provided that such rules and regulations do not conflict with the terms and conditions of this Lease. Outside storage on the Building of any type of equipment, property or materials owned or used on the Demised Premises by Tenant or its customers and suppliers shall not be permitted.

#### **7.0 SECURITY AND DAMAGE DEPOSIT:**

Tenant has deposited with Landlord the sum of three thousand and 00/100 dollars (\$3,000.00), receipt of which is acknowledged hereby by Landlord. Landlord shall hold deposit, without liability for interest, as a security and damage deposit for the faithful performance by Tenant during the Term of Lease or any extension. Prior to the time when Tenant shall be entitled to the return of this security deposit, Landlord may co-mingle such deposit with Landlord's own funds and to use such security deposit for such purpose as Landlord may determine. In the event of the failure of Tenant to keep and perform any of the terms, covenants and conditions of the Term of Lease or any extension of this Lease, then Landlord, either with or without terminating this Lease, may (but shall not be required to) apply such portion of said deposit as may be necessary to compensate or repay Landlord for all losses or damages sustained by Landlord due to such breach on the part of Tenant. Landlord may apply said deposit without limitation to overdue and unpaid rent, any other sum payable by Tenant to Landlord pursuant to the provisions of this Lease, damages or deficiencies in the reletting of Demised Premises, and reasonable attorney's fees incurred by Landlord. Should the entire deposit or any portion thereof, be appropriated and applied by Landlord, in accordance with the provisions of this paragraph, Tenant upon written demand by Landlord, shall remit to Landlord a sufficient amount of cash to restore said security deposit to the original sum deposited. Tenant's failure to remit such security deposit within ten (10) days after receipt of such demand shall constitute a breach of this Lease. Upon the termination of this or any extension, Landlord shall return to Tenant the deposit or any remaining balance. Tenant shall have no right to anticipate return of said deposit by withholding any amount required to be paid pursuant to the provision of this Lease.

In the event Landlord shall sell the Building, convey or dispose of its interest in this Lease, Landlord may assign said security deposit or any balance to Landlord's assignee, whereupon Landlord shall be released from all liability for the return or repayment of such security deposit and Tenant shall look solely to the assignee for the return and repayment of security deposit. Said security deposit shall not be assigned or encumbered by Tenant without the written consent of Landlord, and any assignment or encumbrance without such consent shall not bind Landlord.

#### **8.0 CARE AND REPAIR OF DEMISED PREMISES:**

Tenant shall, at all times throughout the Term of Lease and any extensions, and at its sole expense, keep and maintain the Demised Premises in a clean, safe, and sanitary condition and in compliance with all applicable laws, codes, ordinances, rules and regulations. Tenant's obligations hereunder shall include without limitation, the maintenance, repair, replacement, if necessary of all interior walls, partitions, doors and windows, including the regular painting thereof, all exterior entrances, windows, doors and docks, the replacement of all broken glass, of any fixture/equipment/component of heating, ventilation, air conditioning (HVAC) systems, all lighting systems, plumbing systems and electrical systems exclusively serving the Demised Premises. In the event that an HVAC rooftop unit or ceiling hung unit heater requires replacement, the cost of such replacement shall be shared between Landlord and Tenant, Tenant's share to be based on a ratio of the time remaining in the Term as compared to the estimated useful life of the replacement unit, unless caused by the misuse or neglect of Tenant, in which case Tenant shall contribute within ten (10) days following Landlord's written demand an amount determined based upon the remaining useful life of the replaced unit at the time of such damage. Provided the damage was not caused by the misuse or neglect of Tenant. Tenant's share shall be paid as Additional Rent on a monthly basis over the remainder of the Term. Landlord will not pass on Landlord's share in

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Additional Rent. Such estimations are fifteen (15) years for a roof top unit and ten (10) years for a ceiling hung unit heater under normal conditions. When used in this provision, the term "repairs" shall include replacements, and all such repairs or replacements made by the Tenant shall be of equal quality or condition that existed at the Commencement Date. The Tenant shall keep and maintain all portions of the Demised Premises and the sidewalk and areas adjoining the same in a

clean and orderly condition, free of accumulation of dirt, rubbish, snow and ice, regardless of any CAM performed by Landlord. Tenant shall maintain a minimum temperature in the Demised Premises of 40 degrees Fahrenheit during the Lease Term.

If Tenant fails, refuses or neglects to maintain or repair the Demised Premises as required in this Lease after notice has been given Tenant, in accordance with Article 17.0 of this Lease, Landlord may make such repairs or replacements without liability to Landlord for any loss or damage that may accrue to Tenant's merchandise, fixtures or other property or to Tenant's business by reason thereof, except to the extent caused by Landlord's, or its agents', employees', or contractors' gross negligence or willful misconduct, and upon completion thereof, Tenant shall pay to Landlord all costs plus ten percent (10%) for overhead incurred by Landlord in making such repairs or replacements.

Landlord shall repair, at its expense (but subject to inclusion in CAM pursuant to the provisions in Article 3.0), the structural portions of the Building, unless such repairs are required as a result of the acts of Tenant, its employs, agents, assigns or invitees, in which case the costs thereof shall be borne by Tenant and payable by Tenant to Landlord.

Except as otherwise provided herein, Landlord shall be responsible for all outside maintenance of the Demised Premises, including grounds and parking areas. All maintenance which is the responsibility of the Landlord shall be provided as reasonably necessary to the comfortable use and occupancy of Demised Premises during business hours, except Saturdays, Sundays and holidays, upon the condition that the Landlord shall not be liable for damages for its performance due to causes beyond its control.

#### **9.0 HAZARDOUS MATERIALS:**

Tenant shall not (either with or without negligence) cause or permit the escape, disposal or release into or onto the Demised Premises or the Building of any biologically or chemically active or other hazardous substances, or materials. Tenant shall obtain and maintain, if required by law or regulation, a hazardous substance small generator permit and comply with all conditions thereof. Tenant shall not allow the storage or use in the Demised Premises or the Building of such substances or materials in any manner not sanctioned by law or by the highest standards prevailing in the industry for the storage and use of such substances or materials, nor allow to be brought into the or onto the Demised Premises or the Building any such materials or substances except in the ordinary course of Tenant's business, and then only after written notice is given to Landlord of the identity of such substances or materials. Without limitation, hazardous substances and materials shall include those described in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Section 9601 et seq., the Resource Conservation and Recovery Act, as amended, 42 U.S.C. Section 6901 et seq., or any applicable state or local laws and the regulations adopted under these acts. If any lender or governmental agency shall ever decide to ascertain whether or not there has been any release of hazardous materials brought into or onto the Demised Premises or the Building by Tenant, its employees, agents, contractors, licensees or other Person or in connection with Tenant's use thereof, then the reasonable costs thereof shall be reimbursed by Tenant to Landlord upon demand as additional charges. In addition, Tenant shall execute affidavits, representations and the like from time to time at Landlord's request concerning Tenant's best knowledge and belief regarding the presence of hazardous substances or materials on the Demised Premises or the Building. In all events, Tenant shall indemnify Landlord from any release of hazardous materials on the Demised Premises or the Building occurring while Tenant is in possession, or elsewhere if caused by Tenant or persons acting under Tenant. The within covenants shall survive the expiration or earlier termination of the Term of this Lease.

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#### **10.0 PUBLIC LIABILITY INSURANCE:**

Tenant shall during the Term hereof keep in full force and effect at its own expense a policy or policies of public liability insurance with respect to the Demised Premises and the business of Tenant, on terms and with companies reasonably acceptable to Landlord, in which both Tenant and Landlord shall be covered by being named as insured parties under reasonable limits of liability not less than: \$1,000,000 for injury/death to any one person; \$2,000,000 for injury/death to more than one person, and \$1,000,000 with respect to damage to property. Tenant shall further provide for business interruption or rent loss insurance to cover a period of not less than six (6) months. Such policy or policies shall provide that thirty (30) days written notice must be given to Landlord prior to cancellation or modification thereof. Tenant shall furnish evidence satisfactory to Landlord at the time this Lease is executed that such coverage is in full force and effect.

#### **11.0 SIGNAGE AND DISPLAYS:**

Landlord shall provide vinyl lettering on the Demised Premises exterior door identifying the Tenant's name and the suite number of the Demised Premises. Any other sign, lettering, logo, picture, notice or advertisement proposed to be installed on or in any part of the Demised Premises and visible from the exterior of the Building, or visible from the exterior of the Demised Premises, shall be subject to Landlord's "Building Standard Signage" guidelines and the proposed signage and installation thereof shall be subject to Landlord's prior written approval (which shall not be unreasonably withheld, conditioned or delayed) and shall be installed at Tenant's sole cost and expense. In the event of a violation of the foregoing by Tenant, Landlord may remove the same without any liability and may charge the expense incurred by such removal to Tenant. Tenant agrees to maintain its signage in good repair, and to hold Landlord harmless from any loss, cost, or damages resulting from the erection, existence, maintenance, or removal of the signage.

#### **12.0 ALTERATIONS, INSTALLATION, FIXTURES:**

Unless otherwise stated, Tenant shall not make any alterations, additions or improvements in or to the Demised Premises or add, disturb or in any way change any plumbing or wiring, (except cabling) without the prior written consent of the Landlord (which shall not be unreasonably withheld, conditioned or delayed). In the event alterations are required by any governmental agency by reason of the use and occupancy of the Demised Premises by Tenant, Tenant shall make such alterations at its own cost and expense after first obtaining Landlord's written approval (which shall not be unreasonably withheld, conditioned or delayed) of plans and specifications and furnishing such indemnification as Landlord may reasonably require against liens, costs, damages and expenses arising out of such alterations. Landlord shall notify Tenant, at the time of such approval, if Landlord requires removal of any fixtures at Lease Expiration. Tenant shall warrant to Landlord that all such alterations, additions, or improvements shall be in strict compliance with all relevant laws, ordinances, governmental regulations and insurance requirements. Construction of such alterations or additions shall commence only upon Tenant obtaining and exhibiting to Landlord the requisite approvals, licenses and permits and indemnification against liens. All alterations, installations, physical additions or improvements to the Demised Premises made by Tenant shall at once become the property of Landlord and shall be surrendered to Landlord upon the termination of this Lease; provided, however, this clause shall not apply to movable equipment or furniture or trade fixtures owned by Tenant, which may be removed by Tenant at the end of the Term; provided that Tenant shall repair any damage caused to the Demised Premises or Building as a result of such removal.

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### **13.0 ACCESS TO DEMISED PREMISES:**

Landlord will provide Tenant with two (2) copies of keys to access all lockable doors in the Premises at no cost to Tenant. Tenant may make additional copies of keys at Tenant's sole cost and expense. All keys, including duplicates made by Tenant, will be returned to Landlord at the end of the term.

Tenant agrees to permit Landlord and the authorized representatives of Landlord, upon reasonable advance notice to Tenant, to enter the Demised Premises at all times during usual business hours for the purpose of inspecting the same and making any necessary repairs to the Demised Premises and performing any work therein that may be necessary to comply with any laws, ordinances, rules, regulations or requirements of any public authority or of the Board of Fire Underwriters or any similar body or that Landlord may deem necessary to prevent waste or deterioration in connection with the Demised Premises. Nothing herein shall imply any duty upon the part of Landlord to do any such work which, under any provision of this Lease, Tenant is required to perform and the performance thereof by Landlord shall not constitute a waiver of the Tenant's default to perform the same. Landlord may, during the progress of any work in the Demised Premises or Building, reasonably keep and store upon the Demised Premises or Building all necessary materials, tools, and equipment. Landlord shall not in any event be liable for reasonable inconvenience, annoyance, disturbance, loss of business, or other damage of the Tenant, nor shall Tenant's lease obligations be affected by reason of making repairs or the performance of any work, including materials handling into or through the Demised Premises or Building, but Landlord shall use reasonable efforts to minimize such impacts on Tenant and its business.

Landlord reserves the right to enter upon the Demised Premises (a) at any time in the event of an emergency and (b) at reasonable hours with reasonable notice to exhibit the Demised Premises to prospective purchasers or others; and to exhibit the Demised Premises to prospective tenants and to display "For Rent" or similar signs on windows or doors in the Demised Premises during the last one hundred twenty (120) days of the Term of this Lease, all without hindrance by Tenant.

### **14.0 REMOVAL OF FIXTURES:**

Notwithstanding anything contained in Article 12.0, 18.0, or elsewhere in this Lease, if Landlord requests, then Tenant will promptly remove, at the sole cost and expense of Tenant, all fixtures, equipment and alterations made by Tenant, at the time Tenant vacates the Demised Premises, and Tenant will promptly restore said Demised Premises to the condition that existed immediately prior to said fixtures, equipment and alterations having been installed or made, all at the sole cost and expense of Tenant.

### **15.0 ASSIGNMENT OR SUBLETTING:**

Tenant shall use and occupy the Demised Premises throughout the entire Term only for the purposes herein specified and for no other purposes, in the manner and substantially the extent now intended, and shall not transfer or assign this Lease or sublet the Demised Premises, or any part thereof, whether by voluntary act, operation of law, or otherwise, without obtaining the prior consent of Landlord in each instance, which consent may be withheld by Landlord in its sole discretion, except however, Landlord shall not unreasonably withhold its consent to a sublease if the sublessee has a net worth greater than One Million Dollars. Tenant shall seek such consent of Landlord by a written request therefor, setting forth such information as Landlord may deem necessary, which if the consent requested is for a sublease with a sublessee purported to have a net worth greater than one million dollars must include a letter of intent and a current and complete financial statement certified by the sublessee or an officer of the sublessee if sublessee is an entity. If a sublease approval by Landlord is for a sublessee having a net worth greater than one million dollars, Landlord shall not disapprove a sublease or terms thereof that are consistent with the letter of intent provided to Landlord. Consent by Landlord to any assignment of this Lease or to any subletting of the Demised Premises shall not be deemed a consent or waiver of

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Landlord's right under this Article as to any subsequent assignment or subletting. Sale, assignment, or change of ownership of Tenant or a sale of all or substantially all of the assets of Tenant, will require Landlord consent, which consent may be withheld by Landlord in its sole discretion, unless Tenant provides to Landlord evidence satisfactory to Landlord, including a financial statement certified by the purchaser, assignee or successor owner evidencing the purchaser, assignee or successor owner has a net worth of not less than one million dollars and such purchaser, assignee or successor owner expressly assumes Tenant's obligations under this Lease by an assignment in form satisfactory to Landlord (if such conditions are satisfied, herein a "Permitted Assignee"). Tenant shall provide notice to Landlord of any public offering of interests in Tenant and Landlord consent thereof shall not be required. Landlord's right to assign this Lease is and shall remain unqualified upon any sale or transfer of the Building and, providing the purchaser succeeds to the interest of Landlord under this Lease, Landlord shall thereupon be entirely freed of all obligations of the Landlord hereunder, and shall not be subject to any liability resulting, from any act or omission or event occurring after such conveyance. No such assignment or subleasing shall relieve the Tenant from any of Tenant's obligations in this Lease contained, nor shall any assignment or sublease or other transfer of this Lease be effective unless the assignee, subtenant or transferee shall at the time of such assignment, sublease or transfer, assume in writing for the benefit of Landlord, its successors or assigns, all of the terms, covenants, and conditions of this Lease thereafter to be performed by Tenant and such assumption is in form satisfactory to Landlord. Should Tenant sublease in accordance with the terms of this Lease, fifty percent (50%) of any increase in rental and other consideration received by Tenant over the per square foot rental rate which is being paid by Tenant shall be forwarded to and retained by Landlord, which increase shall be in addition to the Base Rent and Additional Rent due Landlord under this Lease.

### **16.0 SUCCESSORS AND ASSIGNS:**

The terms, covenants and conditions hereof shall be binding upon and inure to the successors and assigns of the parties hereto.

### **17.0 NOTICES:**

Any notice required or permitted under this Lease shall be deemed sufficiently given or secured if sent by registered or certified return receipt mail to Tenant at the Demised Premises and to Landlord at the address then fixed for the payment of rent as provided in Article 4.0 of this Lease and either party may by like written notice at any time designate a different address to which notices shall subsequently be sent or rent to be paid.

### **18.0 SURRENDER:**

On the Expiration Date or upon the termination hereof upon a day other than the Expiration Date, Tenant shall peaceably surrender the Demised Premises in good order, condition and repair (reasonable wear and tear and insured and condemnation damage excepted); warehouse area in broomclean condition; office/restroom area vacuumed and cleaned. On or before the Expiration Date or upon termination of this Lease on a day other than the Expiration Date, Tenant shall, at its expense, remove all trade fixtures, personal property and equipment and signs from the Demised Premises and any property not removed shall be deemed to have

been abandoned. It is specifically agreed that any and all telephonic, coaxial, ethernet, or other computer, word processing, facsimile, or electronic wiring installed by Tenant within the Demised Premises (hereinafter "Tenant Wiring") shall be removed at Tenant's cost at the expiration of the Term, unless Landlord has specifically requested in writing that said Tenant Wiring shall remain, whereupon said Tenant Wiring shall be surrendered with the Demised Premises as Landlord's property. Any damage caused in the removal of such items shall be repaired by Tenant and at its expense. All alterations, additions, improvements and fixtures (other than trade fixtures) which shall have been made or installed by Landlord or Tenant upon the Demised Premises and all floor covering so installed shall remain upon and be surrendered with the Demised Premises as a part thereof, without disturbance, molestation or injury, and without charge, at the expiration or termination of this Lease except any such

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items identified under Article 14.0 hereof. If the Demised Premises are not surrendered on the Expiration Date or the date of termination, Tenant shall indemnify Landlord against loss or liability, claims, without limitation, made by any succeeding Tenant founded on such delay. Tenant shall promptly surrender all keys for the Demised Premises to Landlord at the place then fixed for payment of rent and shall inform Landlord of combinations of any locks and safes on the Demised Premises.

#### **19.0 HOLDING OVER:**

In the event of a holding over by Tenant after expiration or termination of this Lease without the consent in writing of Landlord, Tenant shall be deemed a month-to-month tenant and shall pay rent for such occupancy at the rate of one and one-half times the last-current Base Rent, as well as continuing to pay the Additional Rent, prorated for the entire holding over period, plus all attorney's fees and expenses incurred by Landlord in enforcing its rights hereunder, plus any other damages occasioned by such holding over.

#### **20.0 ABANDONMENT:**

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#### **21.0 DEFAULT OF TENANT:**

- a. In the event of any failure of Tenant to pay any rental due hereunder (i) within five (5) days after written notice, if there has been no prior notice of rent payment default during the preceding twelve (12) months, or otherwise (ii) within ten (10) days of when due (without any notice requirement), or any failure to perform any other terms, conditions or covenants of this Lease to be observed or performed by Tenant for more than thirty (30) days after written notice of such failure shall have been given to Tenant, or if Tenant or an agent of Tenant shall falsify any report required to be furnished to Landlord pursuant to the terms of this Lease, or if Tenant or any guarantor of this Lease shall become bankrupt or insolvent, or file any debtor proceedings or any person shall take or have against Tenant or any guarantor of this Lease in any court pursuant to any statute either of the United States or of any state a petition in bankruptcy or insolvency or for reorganization or for the appointment of a receiver or trustee of all or a portion of Tenant's or any such guarantor's property, or if Tenant or any such guarantor's property, or if Tenant or any such guarantor makes an assignment for the benefit of creditors, or petitions for or enters into an arrangement with its creditors, or suffer this Lease to be taken under any writ of execution, then in any such event Tenant shall be in default hereunder, and Landlord, in addition to other rights or remedies it may have, shall have the immediate right of re-entry and may remove all persons and property from the Demised Premises and such property may be removed and stored in a public warehouse or elsewhere at the cost of, and for the account of Tenant, without being guilty of trespass, or becoming liable for any loss or damage which may be occasioned thereby.
- b. Should Landlord elect to re-enter the Demised Premises, as herein provided, or should it take possession of the Demised Premises pursuant to legal proceedings or pursuant to any notice provided for by law, it may either terminate this Lease or it may from time to time, without terminating this Lease, make such alterations and repairs as may be necessary in order to relet the Demised Premises, and relet the Demised Premises or any part thereof for such term or terms (which may be for a term extending beyond the Term of this Lease) and at such rental or rentals and upon such other terms and conditions as Landlord in its sole discretion may deem advisable. Upon each such reletting all rentals received by the Landlord from such reletting shall be applied first to the payment of any indebtedness other than rent due hereunder from Tenant to Landlord; second, to the payment of any costs and expenses of such reletting, including brokerage fees and

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attorney's fees and costs of such repairs (but not alterations); third, to the payment of the rent due and unpaid hereunder, and the residue, if any shall be held by Landlord and applied in payment of future rent as the same may become due and payable hereunder. If such rentals received from such reletting during any month be less than that to be paid during that month by Tenant hereunder, Tenant upon demand, shall pay any such deficiency to Landlord. No such re-entry or taking possession of the Demised Premises by Landlord shall be construed as an election on its part to terminate this Lease unless a written notice of such intention be given to Tenant or unless the termination thereof be decreed by a court of competent jurisdiction. Notwithstanding any such reletting without termination, Landlord may at any time after such re-entry and reletting elect to terminate this Lease for such previous breach. Should Landlord at any time terminate this Lease for any such breach, in addition to any other remedies it may have, it may recover from Tenant all damages it may incur by reason of such breach, including the cost of recovering the Demised Premises, attorney's fees, and costs, the unamortized portion of any leasehold improvements made by Landlord for Tenant and including the worth at the time of such termination of the excess, if any, of the amount of rent and charges equivalent to rent reserved in this Lease for the remainder of the stated term over the then reasonable rental value of the Demised Premises for the remainder of the stated term, all of which amounts shall be immediately due and payable from Tenant to Landlord.

- c. Landlord may, at its option, instead of exercising any other rights or remedies available to it in this Lease or otherwise by law, statute or equity, spend such money as is reasonably necessary to cure any default of Tenant herein and the amount so spent, and costs incurred, including attorney's fees in curing such default, shall be paid by Tenant, as additional rent, upon demand.
- d. In the event suit shall be brought for recovery of possession of the Demised Premises, for the recovery of rent or any other amount due under the provisions of this Lease, or because of the breach of any other covenant herein contained on the part of the Tenant to be kept or performed, and a breach shall be established, Tenant shall pay to Landlord all expenses incurred therefor, including attorney's fees and costs, together with interest on all such

expenses at the rate of fourteen percent (14%) per annum from the date of such breach of the covenants of this Lease until the date that such breach is cured.

- e. Tenant hereby expressly waives any and all rights of redemption granted by or under any present or future laws in the event of Tenant being evicted or dispossessed for any cause, or in the event of Landlord obtaining possession of the Demised Premises, by reason of any default hereunder, or otherwise. Tenant also waives any demand for possession of the Demised Premises, and any demand for payment of rent and any notice of intent to re-enter the Demised Premises, or of intent to terminate this Lease, other than the notices provided in this Lease, and any other notice or demand prescribed by any applicable statutes or laws.
- f. No remedy herein or elsewhere in this Lease or otherwise by law, statute or equity, conferred upon or reserved to Landlord or Tenant shall be exclusive of any other remedy, but shall be cumulative, and may be exercised from time to time and as often as the occasion may arise.

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## 22.0 EMINENT DOMAIN:

In the event of any eminent domain or condemnation proceeding or private sale in lieu thereof in respect to the Building during the Term hereof, the following provisions shall apply:

- a. If the whole of the Building shall be acquired or condemned by eminent domain for any public or quasi-public purpose, the term of this lease shall cease and terminate as of the date possession shall be taken in such proceedings and all rentals shall be paid up to that date.
- b. If any part constituting less than the whole of the Building shall be acquired or condemned as aforesaid, and in the event that such partial taking or condemnation shall materially affect the Demised Premises so as to render the Demised Premises unsuitable for the business of the Tenant, in the reasonable opinion of Landlord and Tenant, then the term of this Lease shall cease and terminate as of the date possession shall be taken by the condemning authority and rent shall be paid to the date of such termination.

In the event of a partial taking or condemnation of the Building which shall not materially affect the Demised Premises so as to render the Demised Premises unsuitable for the business of the Tenant, in the reasonable opinion of the Landlord and Tenant, this Lease shall continue in full force and effect with a proportionate abatement of the Base Rent and Additional Rent based on the portion, if any, of the Demised Premises taken. Landlord reserves the right, at its option, to restore the Building and the Demised Premises to substantially the same condition as they were prior to such condemnation. In such event, Landlord shall give written notice to Tenant, within 30 days following the date possession shall be taken by the condemning authority, of Landlord's intention to restore. Upon Landlord's notice of election to restore, Landlord shall commence restoration and shall restore the Building and the Demised Premises with reasonable promptness, subject to delays beyond Landlord's control and delays in the making of condemnation or sale proceeds adjustments by Landlord; and Tenant shall have no right to terminate this Lease except as herein provided. Upon completion of such restoration, the rent shall be adjusted based upon the portion, if any, of the Demised Premises restored. Proportionate Base Rent and Additional Rent shall be abated until the Demised Premises and Building are fully restored. If restoration takes longer than 180 days, subject to force majeure delays, Tenant shall have the right to terminate this Lease upon thirty (30) days written notice to Landlord.

- c. In the event of any condemnation or taking as aforesaid, whether whole or partial, the Tenant shall not be entitled to any part of the award paid for such condemnation and Landlord is to receive the full amount of such award, the Tenant hereby expressly waiving any right to claim to any part thereof.
- d. Although all damages in the event of any condemnation shall belong to the Landlord whether such damages are awarded as compensation for diminution in value of the leasehold or to the fee of the Demised Premises, Tenant shall have the right to claim and recover from the condemning authority, but not from Landlord, such compensation as may be separately awarded or recoverable by Tenant in Tenant's own right on account of any and all damage to Tenant's business by reason of the condemnation and for or on account of any cost or loss to which Tenant might be put in removing and/or relocating Tenant's merchandise, furniture, fixtures, leasehold improvements and equipment. However, Tenant shall have no claim against Landlord or make any claim with the condemning authority for the loss of its leasehold estate, any unexpired term or loss of any possible renewal or extension of said lease or loss of any possible value of said lease.

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The provisions of this Section 22 c. and d. shall survive termination of this Lease as a result of a condemnation, eminent domain or sale under threat thereof.

## 23.0 RULES AND REGULATIONS:

Tenant shall observe and comply with such rules and regulations as Landlord may prescribe, on written notice to Tenant for the safety, care, cleanliness, and operation of the Building.

## 24.0 DAMAGE OR DESTRUCTION:

In the event of any damage or destruction to the Premises by fire or other cause during the term hereof, the following provisions shall apply:

- a. If the Building is damaged by fire or any other cause to such extent that the cost of restoration, as estimated by Landlord, will equal or exceed thirty percent (30%) of the replacement value of the Building (exclusive of foundations) just prior to the occurrence of the damage, then Landlord may, not later than the sixtieth (60th) day following the damage, give Tenant written notice of Landlord's election to terminate this Lease.
- b. If the cost of restoration as estimated by Landlord will equal or exceed fifty percent (50%) of said replacement value of the Building and if the Demised Premises are not suitable as a result of said damage for the purposes for which they are demised hereunder, in the reasonable opinion of Landlord and Tenant, then Tenant may, no later than the sixtieth (60th) day following the damage, give Landlord a written notice of election to terminate this Lease.

- c. If the cost of restoration as estimated by Landlord shall amount to less than thirty percent (30%) of said replacement value of the Building, or if, despite the cost, Landlord does not elect to terminate this Lease, Landlord shall restore the Building and the Demised Premises with reasonable promptness to the condition they existed in at Lease execution, subject to ordinary wear and tear accruing thereafter, and subject to delays beyond Landlord's control and delays in the making of insurance adjustments by Landlord; and Tenant shall have no right to terminate this Lease except as herein provided, unless restoration is estimated to take, or actually takes, longer than 180 days. Landlord shall not be responsible for restoring or repairing leasehold improvements of the Tenant.
- d. In the event either of the elections to terminate is properly exercised, this Lease shall be deemed to terminate on the date of the receipt of the notice of election and all rentals shall be paid up to that date. Tenant shall have no claim against Landlord for the value of any unexpired term of this Lease.
- e. In any case where damage to the Building shall materially affect the Demised Premises so as to render them unsuitable in whole or in part for the purposes for which they are demised hereunder, then, except to the extent such destruction was caused by the negligence or breach of the terms of this Lease by Tenant, its employees, contractors or licensees, a portion of the rent based upon the extent to which the Demised Premises are rendered unsuitable shall be abated until repaired or restored. To the extent the destruction or damage was caused by negligence or breach of the terms of this Lease by Tenant as aforesaid and if Landlord shall elect to rebuild, the rent shall not abate and the Tenant shall remain liable for the same.

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## 25.0 CASUALTY INSURANCE:

- a. Landlord shall at all times during the Term of this Lease, at its expense (but subject to inclusion in CAM pursuant to Article 3.0), maintain a policy or policies of insurance with premiums paid in advance issued by an insurance company licensed to do business in the State of Minnesota insuring the Building against loss or damage by fire, explosion or other insurable hazards and contingencies for the full replacement value, provided that Landlord shall not be obligated to insure any furniture, equipment, machinery, goods or supplies not covered by this Lease which Tenant may bring upon the Demised Premises or any additional improvements which Tenant may construct or install on the Demised Premises.
- b. Tenant shall not carry any stock of goods or do anything in or about the Demised Premises which will in any way impair or invalidate the obligation of the insurer under any policy of insurance required by this Lease.
- c. Provided Landlord's insurance carrier consents, Landlord hereby waives and releases all claims, liabilities and causes of action against Tenant and its agents, servants and employees for loss or damage to, or destruction of, the Demised Premises or Building or any portion thereof, including the buildings and other improvements situated thereon, resulting from fire, explosion or the other perils included in standard extended coverage insurance, whether caused by the negligence of any of said persons or otherwise. Tenant hereby waives and releases all claims, liabilities and causes of action against Landlord and its agents, servants and employees for loss of damage to, or destruction of, any of the improvements, fixtures, equipment, supplies, merchandise and other property, whether that of Tenant or of others in, upon or about the Demised Premises resulting from fire, explosion or the other perils included in standard extended coverage insurance, whether caused by the negligence of any of said persons or otherwise.
- d. In the event that the use of the Demised Premises by Tenant increases the premium rate for insurance carried by Landlord on the improvements of which the Demised Premises are a part, Tenant shall pay Landlord, upon demand, the amount of such premium increase. If Tenant installs any electrical equipment that overloads the power lines to the building or its wiring, Tenant shall, at its own expense, make whatever changes are necessary to comply with the requirements of the insurance underwriter, insurance rating bureau and governmental authorities having jurisdiction.
- e. Tenant shall during the Term, obtain and maintain in full force and effect at its sole cost and expense a policy or policies of insurance insuring all of its personal property located within the Demised Premises from time to time, as well as all tenant improvements made thereto, against loss or damage by fire, explosion or other such hazards and contingencies for the full replacement value thereof. Such policy or policies shall provide that thirty (30) days written notice must be given to Landlord prior to cancellation or modification thereof. Tenant shall furnish evidence satisfactory to Landlord at the time this Lease is executed and thereafter from time to time upon request by Landlord that such coverage is in full force and effect.

## 26.0 COVENANTS TO HOLD HARMLESS:

Unless the liability for damage or loss is caused by the gross negligence or willful misconduct of Landlord, its agents or employees, Tenant shall hold harmless Landlord from any liability for damages to any person or property in or upon the Demised Premises and the Building, including the person and property of Tenant and its employees and all persons in the Building at its or their invitation or sufferance, and from all damages resulting from Tenant's failure to perform the covenants of this Lease.

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All property kept, maintained or stored on the Demised Premises shall be so kept, maintained or stored at the sole risk of Tenant. Tenant agrees to pay all sums of money in respect of any labor, service, materials, supplies or equipment furnished or alleged to have been furnished to Tenant in or about the Demised Premises, and not furnished on order of Landlord, which may be secured by any mechanic's materialmen's or other lien to be discharged at the time performance of any obligation secured thereby matures, provided that Tenant may contest such lien, but if such lien is reduced to final judgment and if such judgment or process thereon is not stayed, or if stayed and said stay expires, then and in each such event, Tenant shall forthwith pay and discharge said judgment. Landlord shall have the right to post and maintain on the Demised Premises, notices of non-responsibility under the laws of the State of Minnesota.

## 27.0 NON-LIABILITY:

Except to the extent caused by the gross negligence or willful misconduct of Landlord, its agent, employees or contractors: (i) Landlord shall not be liable for any damage to property of Tenant or of others located on the Demised Premises, nor for the loss or damage to any property of Tenant or of others by theft or otherwise; (ii) Landlord shall not be liable for any injury or damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, water, rain or snow or leaks from any part of the Premises or from the pipes, appliances, or plumbing works or from the roof, street or subsurface or from any other place or by dampness or by any other cause of whatsoever nature; (iii) Landlord shall not be liable for any such damage caused by other Tenants or persons in the Premises, occupants or adjacent property, of the buildings, or the public or caused by operations in construction of any private, public or quasi-public work;

and (iv) Landlord shall not be liable for any latent defect in the Demised Premises. All property of Tenant kept or stored on the Demised Premises shall be so kept or stored at the risk of Tenant only and Tenant shall hold Landlord harmless from any claims arising out of damage to the same, including subrogation claims by Tenant's insurance carrier.

### **28.0 SUBORDINATION:**

This Lease shall be subordinated to any mortgage that may now exist or that may hereafter be placed upon the Demised Premises and to any and all advances made thereunder, and to the interest upon the indebtedness evidenced by such mortgages, and to all renewals, replacements and extensions thereof. In the event of execution by Landlord after the date of this Lease of any such mortgage, renewal, replacement or extension, Tenant agrees to execute a subordination agreement with the holder thereof which agreement shall provide that:

- a. Such holder shall not disturb the possession and other rights of Tenant under this Lease so long as Tenant is not in default hereunder.
- b. In the event of acquisition of title to the Demised Premises by such holder, such holder shall accept the Tenant as Tenant of the Demised Premises under the terms and conditions of this Lease and shall perform all the obligations of Landlord hereunder, and
- c. The Tenant shall recognize such holder as Landlord hereunder

Tenant shall, upon receipt of a request from Landlord therefor, execute and deliver to Landlord or to any proposed holder of a mortgage or trust deed or to any proposed purchaser of the Demised Premises a certificate in recordable form, certifying that this Lease is in full force and effect, and that there are no offsets against rent or defenses to Tenant's performance under this Lease, or setting forth any such offsets or defenses claimed by Tenant as the case may be. Tenant shall execute and deliver any such subordination agreement, certificate, and such documents in support thereof requested by Landlord, which documents shall not modify or

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change the terms of this Lease, within ten (10) days of written request therefore. The failure of Tenant to do so within such time frame shall constitute an immediate default hereunder without the need for Landlord to provide any notice and/or opportunity to cure as set forth in Section 21.0 a hereof. Tenant hereby irrevocably appoints Landlord as attorney-in-fact to execute such subordination agreement, certificate or other document in support thereof in the name of Tenant upon failure of Tenant to perform its obligations under this Article 28.0 as required hereunder.

### **29.0 ATTORNMENT:**

In the event of a sale or assignment of Landlord's interest, in the Building in which the Demised Premises are located, or this Lease, or if the Building comes into custody or possession of a mortgagee or any other party whether because of a mortgage foreclosure, or otherwise, Tenant shall attorn to such assignee or other party and recognize such party as Landlord hereunder; provided, however, Tenant's peaceable possession will not be disturbed so long as Tenant faithfully performs its obligations under this Lease. Tenant shall execute, on demand, any reasonable attornment agreement by any such party to be executed, containing such provisions as such party may require. Landlord shall have no further obligations under this Lease for any events or obligations arising after any such assignment.

### **30.0 NOVATION IN THE EVENT OF SALE:**

In the event of the sale of the Building, Landlord shall be and hereby is relieved of all of the covenants and obligations created hereby accruing from and after the date of sale, and such sale shall result automatically in the purchaser assuming and agreeing to carry out all the covenants and obligations of Landlord herein. Notwithstanding the foregoing provisions of this Section 30.0, Landlord, in the event of a sale of the Building, shall cause to be included in this agreement of sale and purchase a covenant whereby the purchaser of the Building assumes and agrees to carry out all of the covenants and obligations of Landlord herein.

The Tenant agrees at any time and from time to time upon not less than ten (10) days prior written request by the Landlord to execute, acknowledge and deliver to the Landlord a statement in writing certifying that this Lease is unmodified and in full force and effect as modified and stating the modifications, and the dates to which the base rent and other charges have been paid in advance, if any, it being intended that any such statement delivered pursuant to this paragraph may be relied upon by any prospective purchaser of the fee or mortgagee or assignee or any mortgage upon the fee of the Demised Premises.

### **31.0 QUIET ENJOYMENT:**

Landlord warrants that it has full right to execute and to perform this Lease and to grant the estate demised, and that Tenant, upon payment of the rents and other amounts due and the performance of all the terms, conditions, covenants and agreements on Tenant's part to be observed and performed under this Lease, may peaceably and quietly enjoy the Demised Premises for the business uses permitted hereunder, subject, nevertheless, to the terms and conditions of this Lease.

### **32.0 RECORDING:**

Tenant shall not record this Lease without the written consent of Landlord. However, upon the request of either party hereto, the other party shall join in the execution of the Memorandum of Lease for the purposes of recordation. Said Memorandum of Lease shall describe the parties, the Demised Premises and the term of the Lease and shall incorporate this Lease by reference. This Article 32.0 shall not be construed to limit Landlord's right to file this Lease. Nothing herein shall prohibit or limit Tenant from providing lease information to the Securities Exchange Commission to the extent required as a condition to a public offering by Tenant.

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### **33.0 CONSENTS BY LESSOR:**

Whenever provision is made under this Lease for Tenant securing the consent or approval by Landlord, such consent or approval shall only be in writing.



### 34.0 INTENT OF PARTIES:

Except as otherwise provided herein, the Tenant covenants and agrees that if it shall any time fail to pay any cost or expense required to be paid by it, or fail to take out, pay for, maintain or deliver any of the insurance policies above required, or fails to make any other payment or perform any other act on its part to be made or performed as in this Lease provided, then the Landlord may, but shall not be obligated so to do, and without notice to or demand upon the Tenant and without waiving or releasing the Tenant from any obligations of the Tenant in this Lease contained, pay any such cost or expense, effect any such insurance coverage and pay premiums therefor, and may make any other payment or perform any other act on the part of the Tenant to be made and performed as in this Lease provided, in such manner and to such extent as the Landlord may deem desirable, and in exercising any such right, to also pay all necessary and incidental costs and expenses, employ counsel and incur and pay reasonable attorney's fees. All sums so paid by Landlord and all necessary and incidental costs and expenses in connection with the performance of any such act by the Landlord, together with interest thereon at the rate of fourteen percent (14%) per annum from the date of making such expenditures, by Landlord, shall be deemed Additional Rent hereunder, and shall be payable to Landlord on demand. Tenant covenants to pay any such sum or sums with interest as aforesaid and the Landlord shall have the same rights and remedies in the event of the non-payment thereof by Tenant as in the case of default by Tenant in the payment of the Base Rent payable under this Lease.

### 35.0 GENERAL:

- a. The Lease does not create the relationship of principal and agent or of partnership or of joint venture or of any association between Landlord and Tenant, the sole relationship between the parties hereto being that of Landlord and Tenant.
- b. No waiver of any default hereunder shall be implied from any omission by the other party to take any action on account of such default if such default persists or is repeated, and no express waiver shall affect any default other than the default specified in the express waiver and that only for the time and to the extent therein stated. One or more waivers by a party shall not then be construed as a waiver of a subsequent breach of the same covenant, term or condition. The consent or approval by Landlord of any act by Tenant requiring Landlord's consent or approval shall not waive or render unnecessary Landlord's consent to or approval of any subsequent similar act by Tenant. No action required or permitted to be taken by or on behalf of Landlord under the terms or provisions of this Lease shall be deemed to constitute an eviction or disturbance of Tenant's possession of the Demised Premises. All preliminary negotiations are merged into and incorporated in this Lease. The laws of the State of Minnesota shall govern the validity, performance and enforcement of this Lease.
- c. This Lease and the exhibits, if any, attached hereto and forming a part hereof, constitute the entire agreement between Landlord and Tenant affecting the Demised Premises and there are no other agreements, either oral or written, between them other than herein set forth. No subsequent alteration, amendment, change or addition to this Lease shall be binding upon Landlord or Tenant unless reduced to writing and executed in the same form and manner in which this Lease is executed.

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- d. If any agreement, covenant or condition of this Lease or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such agreement, covenant or condition to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each agreement, covenant or condition of this Lease shall be valid and be enforced to the fullest extent permitted by law.
  - e. The captions are inserted only as a matter of convenience and for reference, and in no way define, limit or describe the scope of this Lease nor the intent or any provision thereof.
  - f. Submission of this instrument to Tenant or proposed Tenant or his agents or attorneys for examination, review, consideration or signature does not constitute or imply an offer to lease, reservation of space, or option to lease, and this instrument shall have no binding legal effect until execution hereof by both Landlord/Owner and Tenant or its agents.
  - g. This Lease shall be construed under the laws of the State of Minnesota.
  - h. If Tenant is a corporation, each individual executing this Lease on behalf of said corporation represents and warrants that he/she is duly authorized to execute and deliver this Lease on behalf of said corporation in accordance with a duly adopted resolution of the Board of Directors of said corporation or in accordance with the Bylaws of said corporation, and that this Lease is binding upon said corporation in accordance with its terms.
  - i. No receipt or acceptance by Landlord from Tenant of less than the monthly rent herein stipulated shall be deemed to be other than a partial payment on account for any due and unpaid stipulated rent; no endorsement or statement of any check or any letter or other writing accompanying any check or payment of rent to Landlord shall be deemed an accord in satisfaction, and Landlord may accept and negotiate such check or payment without prejudice to Landlord's rights to (i) recover the remaining balance of any unpaid rent or (ii) pursue any other remedy provided in this Lease.
  - j. Time is of the essence with respect to the due performance of the terms, covenants and conditions herein contained.

### 36.0 TENANT IMPROVEMENTS:

Within five (5) days from the date of execution of this Lease, Landlord shall patch interior walls, touch up paint, clean carpet and otherwise deliver the space in a clean and rentable condition. Landlord will ensure that building systems serving the Demised Premises are in proper working, code-compliant order as of Lease execution. In addition, Landlord shall provide Tenant with a tenant improvement allowance (the "Tenant Improvement Allowance") in the amount of one dollar (\$1.00) per square foot to be used for improvements to the Demised Premises, including cabling or furniture. Tenant shall not commence any Tenant improvement work or perform any alterations to the Demised Premises before Tenant has submitted plans, specifications and copies of proposed contracts for the Tenant improvement work and Landlord has approved such plans, specifications and contracts. Landlord will provide the Tenant Improvement Allowance to Tenant within ten (10) days of Tenant submitting to Landlord copies of all receipts for payments for all Tenant improvement work, cabling, or furniture and lien waivers for all Tenant improvement work.

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### 37.0 FORCE MAJEURE:

Either party's failure to perform the terms and conditions of this Lease, in whole or in part, other than any term requiring the payment of money, shall not be deemed a breach or a default hereunder or give rise to any liability of such party to the other if such failure is attributable to any unforeseeable event beyond such party's reasonable control and not caused by the negligent acts or omissions or the willful misconduct of such party, including, without limitation, flood, drought, earthquake, storm, pestilence, lightning, and other natural catastrophes and acts of God; epidemic, war riot, civic disturbance or disobedience, and act of the public enemy; fire, accident, wreck, washout, and explosion; strike, lockout, labor dispute, and failure, threat of failure, or sabotage of such party's facilities; delay in transportation or car shortages, or inability to obtain necessary labor, materials, components, equipment, services, energy, or utilities through such party's usual and regular sources at usual and regular prices; and any law, regulation, order or injunction of a court or governmental authority, whether valid or invalid and including, without limitation, embargoes, priorities, requisitions, and allocations or restrictions of facilities, equipment or operations. In the event of the occurrence of such a force majeure event, the party unable to perform promptly shall notify the other party.

### 38.0 RIGHT OF FIRST REFUSAL:

Subject to the provisions hereinafter set forth, and provided Tenant is not in default beyond any applicable notice and cure periods of the Lease, Landlord hereby grants to Tenant an ongoing right to lease (an "Expansion Option"), on the terms and conditions hereinafter set forth, all, but not part, of that 1,075 square feet of space depicted on Exhibit "D" (the "Expansion Space") in the Building for the remainder of the Term.

(a) If, at any time and from time to time during the Term, the Expansion Space is available for lease, Tenant may deliver notice to Landlord of its intent to lease the Expansion Space (an "Expansion Notice") commencing ("Expansion Space Commencement Date" if expansion is pursuant to this sentence) within thirty (30) days of written notice on the terms outlined in this section. And, if, at any time and from time to time during the Term, the Expansion Space is available for lease and a Third Party Proposal (as hereinafter defined) exists for the Expansion Space, then Landlord shall, before leasing such Expansion Space, promptly notify Tenant in writing (a "Refusal Notice") of the existence of the Third Party Proposal. Tenant may, within five (5) business days after its receipt of the Refusal Notice, elect to exercise its Expansion Option to lease the Expansion Space as of the date set forth in the Third Party Proposal for commencement of the term of lease (the "Expansion Space Commencement Date" if expansion is pursuant to this sentence) on the terms set forth in this Lease except as modified in Sections 38.0 (b) and (c) below. As used in this Lease, the term "Third Party Proposal" shall mean a general understanding in writing (which may be non-binding) between Landlord and a prospective tenant on the terms of a bona fide proposal to lease the Expansion Space.

(b) Notwithstanding the duration of the term set forth in the Third Party Proposal, Tenant shall, if it validly exercises its Expansion Option pursuant to this Section 38.0, lease the Expansion Space for the remainder of the Term.

(c) If Tenant has validly exercised an Expansion Option pursuant to this Section 38.0, then, effective as of the Expansion Space Commencement Date, provided that the Lease is then in full force and effect, the Expansion Space shall be included in the Demised Premises, subject to all of the agreements, terms and conditions of this Lease, with the following exceptions and modifications:

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(i) the square footage of the Demised Premises shall be increased by 1,075 square feet which Landlord and Tenant hereby stipulate and agree is the square footage of the Expansion Space for purposes of this Lease, including the calculation Additional Rent hereunder;

(ii) the term of the demise covering such Expansion Space shall commence on the Expansion Space Commencement Date for such Expansion Space, and shall expire at the end of the Term;

(iii) the Base Rent for the Expansion Space during the remainder of the Term shall be \$806.25 per month and shall be payable in advance on the first day of each month (the monthly Base Rent shall be prorated for the number of days of occupancy during the month of the Expansion Space Commencement Date); and

(iv) the Expansion Space shall be delivered "as is" with all faults except if the Expansion Space Commencement Date is on or before October 1, 2011, Landlord will provide, at its sole cost and expense, improvements for a walkthrough connection, up to five feet in width and in a location acceptable to Landlord, between the original Demised Premises and the Expansion Space.

(d) Tenant's right under this Article 38.0 is a one (1) time right and may be exercised only once.

(e) If Tenant does not timely exercise an Expansion Option to lease the Expansion Space, then Tenant's Expansion Option with respect to the Expansion Space shall thereupon terminate and Tenant shall thereafter have no further right under this Section 38.0 to lease the Expansion Space. Notwithstanding the foregoing, if (i) Tenant was entitled to exercise its Expansion Option, but failed to provide Landlord with a notice of exercise within the five (5) business day period provided in paragraph (a) above, and (ii) Landlord does not enter into a lease for the Expansion Space within a period of one hundred twenty (120) days following the Refusal Notice, Tenant shall once again have an Expansion Option with respect to the Expansion Space.

(f) Upon the valid exercise by Tenant of an Expansion Option to lease the Expansion Space, at the request of either party hereto and within thirty (30) days after such request, Landlord and Tenant shall enter into a written supplement to the Lease incorporating the terms, conditions and provisions applicable to the Expansion Space as determined pursuant to this Section 38.0.

(g) Tenant may only exercise an Expansion Option, and an exercise thereof shall only be effective, if, at the time of Tenant's exercise of such Expansion Option and on the pertinent Expansion Space Commencement Date, the Lease is in full force and effect and Tenant is not in default under the Lease beyond any applicable notice and cure periods set forth in the Lease, and (inasmuch as the Expansion Options are intended only for the benefit of the original Tenant named in the Lease) the Premises are occupied by the original Tenant named herein or a Permitted Assignee (as defined in Section 15.0) and said Tenant has not assigned the Lease (except to a Permitted Assignee) or sublet any portion of the Premises. Without limitation of the foregoing, no sublessee or assignee (other than a Permitted Assignee) shall be entitled to exercise any right hereunder, and no exercise of any right hereunder by the original Tenant named herein shall be effective if Tenant assigns the Lease (other than to a Permitted Assignee) or subleases any portion of the Premises prior to the pertinent Expansion Space Commencement Date.

(h) If, for any reason, Landlord shall be unable to deliver possession on the pertinent Expansion Space Commencement Date for the Expansion Space, Landlord shall not be subject to any liability for failure to deliver possession of such Expansion Space. Such failure to deliver possession shall not affect

either the validity of the Lease or the obligations of either Landlord or Tenant hereunder or be construed to extend the expiration of the Term of the Lease either as to the Expansion Space or the balance of the Premises; provided, however, that under such circumstances, Base Rent and Additional Rent shall not commence as to the Expansion Space until Landlord delivers possession.

**39.0 RIGHT OF RELOCATION OF TENANT:**

Landlord shall have a one-time right during the Term to relocate Tenant to alternative space within the Building upon not less than ninety (90) days written notice so long as such alternative space is substantially equivalent to the Demised Premises, in terms of size, configuration, and access. Landlord and Tenant agree to cooperate in good faith in connection with any required Tenant improvements in connection with such alternative space, which shall in any event be consistent with the level of finish of the initial Tenant improvements provided by Landlord in connection with the Demised Premises, and in connection with Tenant’s move to the alternative Demised Premises. Landlord shall pay all reasonable costs associated with effecting such move, including moving expenses, changes in letterhead, stationary, or marketing materials, cabling or other Tenant improvement changes, but shall not otherwise be liable to Tenant hereunder in connection with such relocation. This right of Landlord to relocate Tenant shall terminate and this Section 39.0 shall be of no further force or effect upon Tenant’s exercise of its Expansion rights under Section 38.0 and occupancy of the Expansion Space.

**40.0 LANDLORD DEFAULT AND TENANT’S REMEDIES:**

If Landlord defaults under the terms of this Lease, Tenant shall deliver to Landlord written notice listing the alleged default(s) and Landlord will have thirty (30) days following receipt of such notice to cure such alleged default, or if the alleged default cannot reasonably be cured within such thirty (30) day period, to commence action and proceed diligently to cure such alleged default. If Landlord fails to cure a default within the specified time frame, Tenant shall have, in addition to any remedies in law or equity, the right to cure Landlord’s default and Landlord shall reimburse Tenant, within thirty (30) days after receipt of a detailed invoice therefore, for all reasonable costs incurred by Tenant, including without limitation attorneys’ fees and costs, in connection with the such default and cure. If Landlord fails to so reimburse Tenant, Tenant shall have the right to offset such unpaid amounts against monthly Base Rent until paid in full.

IN WITNESS WHEREOF, the Landlord and the Tenant have executed this lease in form and manner sufficient to bind them at law, as of the day and year first above written.

**LANDLORD:**  
ROSEVILLE PROPERTIES MANAGEMENT  
COMPANY, as agent for Lexington Business  
Park, LLC

**TENANT:**  
BIODRAIN MEDICAL, INC

\_\_\_\_\_  
*Signature*

\_\_\_\_\_  
*Signature*

\_\_\_\_\_  
*Name (print)*

\_\_\_\_\_  
*Name (print)*

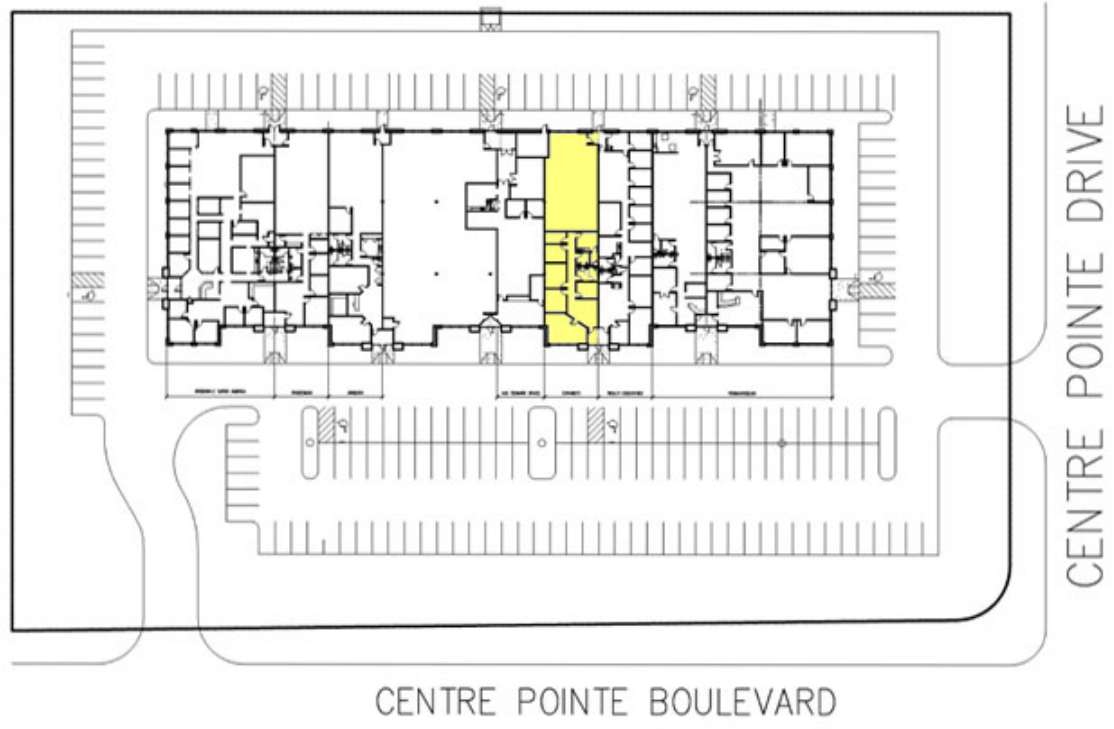
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*Title*

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*Title*

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*Date Signed*

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*Date Signed*

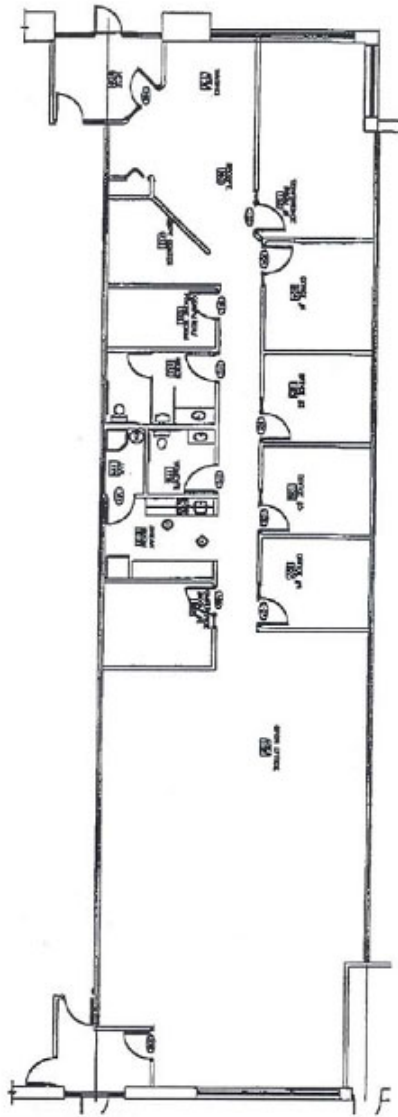
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## **EXHIBIT B**

### **FLOOR PLAN**



## EXHIBIT C

### COMMON AREA MAINTENANCE

**CENTRE POINTE BUSINESS PARK I**

2060 Centre Pointe Boulevard, Mendota Heights

**2008 ESTIMATED COMMON AREA MAINTENANCE (CAN) EXPENSES**

Bldg. SF: 42690

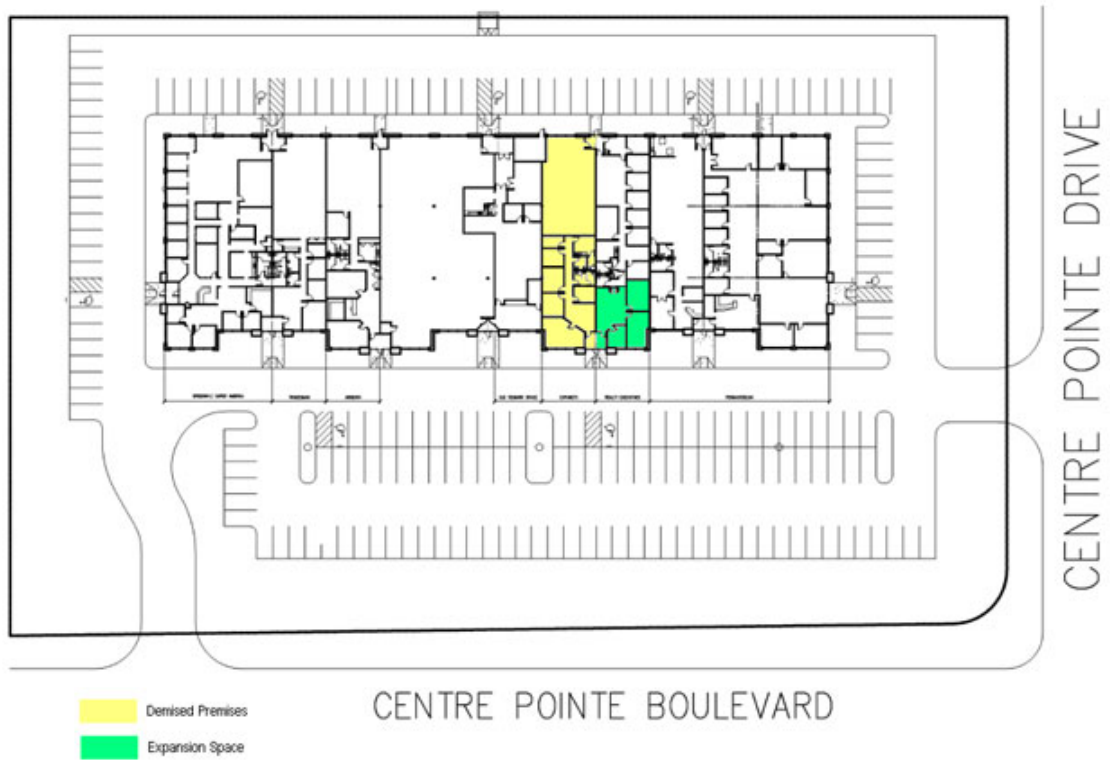
	<u>\$/Year</u>	<u>\$/SF1Yr</u>	<u>Rationale</u>
Property/Liability Insurance	\$ 5,500	\$ 0.13	Annual premium
Snow Removal	56,000	0.14	Nov-March contract pills salt/sand
Oro ends Care	\$ 10,000	\$ 0.23	Apr-Oct contracts; lawn, flowers, irrigation
Roof Repair	\$ 300	\$ 0.01	Annual inspection, repairs
Parking Lot Repair/Replacement	\$ 600	\$ 0.01	Repairs, sweeping, striping
Building Maintenance/Window Wash	\$ 1,000	\$ 0.02	Entries monthly, exterior 2x
Maintenance Labor	\$ 1,800	\$ 0.04	Estimate of 2 hours/month @ \$75/hr.
HVAC Scheduled Maintenance	\$ 4,200	\$ 0.10	4x/yr inspection/filters/belts/condenser wash
Misc. Building Repairs	\$ 300	\$ 0.01	Estimate
Maintenance Supplies	\$ 200	\$ 0.00	Estimate
Exterior Lighting	\$ 3,200	\$ 0.08	Estimate on exterior building lighting
Fire/Life Safety	\$ 2,000	\$ 0.05	Monitor contract, 2 phone lines, annual inspection
Pest Control	\$ 800	\$ 0.02	Service contract
Trash/recycle	\$ 3,800	\$ 0.09	Estimate on 1x/week collection
Administration/Management Fees	\$ 24,000	\$ 0.56	Estimate on 4% of collected gross rent
<b>TOTALS:</b>	<b><u>\$ 63,700</u></b>	<b><u>1.50</u> /SF/Yr</b>	

2008 Est Property Tax: \$ 2.48 /SF/Yr

[IS THE \*\*\* REGARDING SEPARATELY METERED UTILITIES CORRECT?]

## EXHIBIT D

### EXPANSION SPACE



Subsidiaries of BioDrain Medical, Inc.

Name of Subsidiary/State of Incorporation

None

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the use in this Registration Statement on Form S-1 of our audit report, dated August 12, 2008, relating to the financial statements of BioDrain Medical, Inc. appearing in the Prospectus which are a part of this Registration Statement. We also consent to the reference to our Firm under captions "Experts" in the Prospectus.

Olsen, Thielen & Co. Ltd.

St. Paul, Minnesota  
November 12, 2008

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