As Filed with the Securities and Exchange Commission on October 18, 2012 Registration No. 333-179145

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

AMENDMENT No. 2
to
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 Number)

2915 Commers Drive, Suite 900
Eagan, Minnesota 55121
(651) 389-4800
(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

Joshua Kornberg
Chief Executive Officer
2915 Commers Drive, Suite 900
Eagan, Minnesota 55121
(651) 389-4800
(Name, address, including zip code, and telephone number,
including area code, of agent for service)
With a copy to:
Martin Rosenbaum, Esq.
Maslon Edelman Borman & Brand, LLP
3300 Wells Fargo Center/90 South Seventh Street
Minneapolis, Minnesota 55402
Tel: 612-672-8000/Fax: 612-672-8397

FROM TIME TO TIME AFTER THE
EFFECTIVE DATE OF THIS REGISTRATION STATEMENT
(Approximate date of commencement of proposed sale to the public)

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 ☐	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☒

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Per Share Offering Price	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, $.01 par value	9,196,667(1)	$ 0.195(1)	$ 1,793,350	$ 202.50(2)
Common Stock, $.01 par value	78,507,102(3)(4)	$ .08(3)	$ 6,280,568	$ 856.67(5)
Total	87,703,769(6)			

(1) With respect to the 9,196,667 shares covered by this Form S-1 Registration Statement, as filed on January 24, 2012, the proposed maximum per share offering price was estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(c) of the Securities Act, based on the average of the high and low prices of the common stock of the registrant as quoted by the Over-the-Counter Bulletin Board on January 23, 2012.

(2) Paid previously.

(3) This Amendment No. 2 covers an additional 78,507,102 shares. With respect to such shares, the proposed maximum per share offering price was estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(c) of the Securities Act, based on the average of the high and low prices of the common stock of the registrant as quoted by the Over-the-Counter Bulletin Board on October 5, 2012.

(4) Includes 42,663,000 shares currently underlying the convertible notes held by the selling stockholders. See “Selling Security Holders.”

(5) Paid herewith.

(6) Pursuant to Rule 416 under the Securities Act of 1933, as amended (the “Securities Act”), this registration statement shall be deemed to cover additional securities (i) to be offered or issued in connection with any provision of any securities purported to be registered hereby to be offered pursuant to terms which provide for a change in the amount of securities being offered or issued to prevent dilution resulting from stock splits, stock dividends, or similar transactions and (ii) of the same class as the securities covered by this registration statement issued or issuable prior to completion of the distribution of the securities covered by this registration statement as a result of a split of, or a stock dividend on, the registered securities.

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 of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and no offer to buy these securities is being solicited in any state where the offer or sale is not permitted.

Subject to Completion, dated October 18, 2012

Prospectus

BIODRAIN MEDICAL, INC.
87,703,769 shares of common stock

This prospectus covers the resale by the selling stockholders of up to 87,703,769 shares of our common stock, $.01 par value.

These securities will be offered for sale from time to time by the selling stockholders identified in this prospectus in accordance with the terms described in the section of this prospectus entitled "Plan of Distribution." We will not receive any of the proceeds from the sale of the common stock by the selling stockholders.

Our securities are not listed on any national securities exchange. Our common stock is currently quoted on the Over-the-Counter Bulletin Board under the symbol "BIOR.OB." The last reported per share price for our common stock was $.09, as quoted by the OTC Bulletin Board on October 15, 2012.

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE [21].

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is _________, 2012

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PROSPECTUS SUMMARY

This summary contains basic information about us and this offering. You should read the entire prospectus carefully, especially the risks of investing in our common stock discussed under "Risk Factors." Some of the statements contained in this prospectus, including statements under this summary and "Risk Factors" as well as those noted in the documents incorporated herein by reference, are forward-looking statements and may involve a number of risks and uncertainties. We note that our actual results and future events may differ significantly based upon a number of factors. You should not put undue reliance on the forward-looking statements in this document, which speak only as of the date on the cover of this prospectus.

References to "we," "our," "us," the "Company," or "BioDrain" refer to BioDrain Medical, Inc., a Minnesota corporation.

Our Business

Founded in 2002 as a Minnesota corporation, we are an early stage medical device company. Our mission is to provide hospitals and surgical centers 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 healthcare workers from exposure and is environmentally friendly.

Financial Results

Our financial statements for the years ended December 31, 2011 and 2010 and for the three and six months ended June 30, 2012 and 2011 are included in this prospectus. In 2011 and 2010, we had $96,637 and $288 in revenues, respectively, and approximately $4.5 million and $1.4 million in net loss, respectively. During the six months ended June 30, 2012 and 2011, we had $47,595 and $2,374 in revenues, respectively, and $2.8 million and $.9 million in net loss, respectively.

Risks Affecting Our Business

We are subject to a number of risks, which you should be aware of before deciding to purchase the securities in this offering. These risks are discussed in the section titled "Risk Factors."

General Information

Our address is 2915 Commers Drive, Suite 900, Eagan, Minnesota 55121. Our telephone number is (651) 389-4800, and our website address is www.biodrainmedical.com.

The Offering

We are registering 87,703,769 shares of our common stock for sale by the selling stockholders identified in the section of this prospectus entitled "Selling Security Holders." See "Plan of Distribution." Information regarding our common stock is included in the section of this prospectus entitled "Description of Securities."

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 generated only minimal 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 and the 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, not profitable, and expect to incur additional losses, we will require additional financing to sustain our operation. Our independent public accounting firm has indicated in their audit opinion, contained in our financial statements, that they have serious doubts about our ability to remain a going concern.

We incurred a net loss of $4,486,879 and $1,352,709, respectively, for the fiscal years ended December 31, 2011 and 2010, respectively, and a net loss of $2,849,142 for the six months ended June 30, 2012. 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 generated only minimal revenues and are still developing our planned principal operations.

We believe that we will need to raise at least an aggregate of $2 million from future offerings in order to have sufficient financial resources to fund our operations, including research & development, for the next 12 months because we are running at a cash flow deficit. If we are unable to obtain additional funds at reasonable rates or at all we will be required to substantially curtail our operations and could cease to operate in our current form. Our independent registered public accounting firm has indicated in their audit opinion, contained in our financial statements that they have serious doubts about our ability to continue as a going concern.

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 may default on significant debt that becomes due on December 31, 2012 and may be unable to continue in business.

We are currently indebted to Dr. Samuel Herschkowitz and SOK Partners, LLC pursuant to convertible promissory notes with balances of $240,000 and $357,282, respectively, as of June 30, 2012. Pursuant to a Forbearance and Settlement Agreement with these parties dated August 15, 2012, the due date of these notes was extended to December 31, 2012. Dr. Herschkowitz' note is secured by substantially all of the assets of the Company. If we are unable to repay these notes as of December 31, 2012 and these parties do not convert their notes, we will be in default under the notes. In that case, Dr. Herschkowitz will have rights as a secured creditor with respect to the Company's assets, which would include the right to seize the Company's assets. Further, the Company also has other significant indebtedness. If the Company defaults on its debt, it may be forced to seek bankruptcy protection and may be unable to continue in business.

We are an early stage company with a limited operating history and minimal 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 generated only minimal 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 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 could be costly, particularly in light of our limited resources. Similarly, if we determine that third parties are infringing on our patents or other intellectual property rights, our limited resources may prevent us from litigating or otherwise taking actions to enforce our rights. Any such litigation or inability to enforce our rights could require us to change our business practices, hinder or prevent our ability to deliver our products and services, and 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 competing patent purchase agreement.

Our revenues would be adversely affected if our 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 national stage applications were filed in the U.S., Europe and Canada based on the PCT application. During the national stage prosecutions, 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 Canadian patent office has not yet examined the Canadian national stage application. 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 U.S. patent was granted to us in December 2008 (U.S. Patent No. 7,469,727and in February 2012 (U.S. Patent No. 8,123,731). A European patent was granted to us in April 2007 (Patent No. EP1539580), and a Canadian patent was granted in April 2011 (number 2,495,747).

We entered into a patent purchase agreement in September 2002 with Nord and Drogue prior to engaging Mr. Ryan. 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 un-patentable, we notified Mr. Nord that the patent purchase agreement we had entered into with Nord and Drogue was no longer valid. Nord and Drogue could pursue legal action against us purportedly for breach of contract and may sue for damages and ownership interest in the patents. Although we believe we would prevail in such lawsuit, there is no assurance that we would. We believe that Nord and Drogue have no valid claims of inventorship or ownership of the patents. Even if Mr. Nord or Mr. Drogue were to assert such a claim, we believe that, independent of our dealings with them, we obtained rights to the patents from Mr. Ryan, who even if found not to be the sole inventor of the subject matter of the claims of the patents, is at least a joint inventor. As a joint inventor, Mr. Ryan would have co-ownership of the Patents and would have the power to transfer to us his undivided co-ownership interest in the Patents.

We face significant competition, including competition from companies with considerably 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 ranging 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.

We estimate that the total market for surgical suction canisters is approximately $100 million and has a compound annual growth rate of 5%. We estimate the total cost of using surgical canisters is a multiple of $100 million because this amount does not include the labor to handle the canisters, disposal costs and solidifying compounds commonly used to minimize exposure to health care workers. Cardinal Health, Inc., a $90 billion plus medical manufacturer and distributor, is a leading competitor. 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 $8 billion, and has a leading position in this market. Cardinal Health, Inc. has recently begun advertising a powered device similar to that which Stryker currently markets. Both of these competitors are better capitalized than we are.

Although the BioDrain Streamway™ FMS is directly connected to the sanitary sewer, helping to reduce potential exposure to infectious fluids, it is possible that installation of the system will cause inconvenience and lost productivity as the operating rooms in which they are installed will need to be temporarily shut down. In addition, remodel work may be necessary in preparation for, or as a result of, an installation. In some cases, the costs to rework plumbing lines to accommodate for our system may outweigh the expected savings and/or lengthen the expected return on investment time.

Companies with significantly greater resources than ours may be able to reverse engineer our products and/or circumvent our intellectual property position. Such action, if 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 technical innovations of unlimited suction and unlimited capacity capabilities, 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 the shares of our common stock.

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

In March 2009, we filed a 510(k) submission with the FDA with respect to a product classification as a Class II non-exempt device. We cannot generate revenues from our product to be used in the surgical operating room without FDA clearance. We received written confirmation of final FDA clearance on April 1, 2009.

The potential production and marketing of some of our products, 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.

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 along with our competitors 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 has just entered the commercial market and, although we anticipate market acceptance, we do not have enough customer experience with it to predict future demands.

The BioDrain FMS has been launched into the fluid management market. We are currently developing the product for manufacture, following GMP compliance regulations, at our own facility and anticipate the capability of producing the BioDrain FMS in sufficient quantities for future near term sales. We are in the process of searching for a manufacturing company that fits our standards and costs. We anticipate that the product will be attractive to the target market due to its continuous suction and unlimited capacity ability, but other unknown or unforeseen market requirements may arise. The Company is in the process of evaluating contract manufacturing partners that may be able to produce our product 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 and in-line filter.

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 rely on the continued services of Lawrence Gadbaw, the Chairman of our Board of Directors, and heavily depend on our management team; Joshua Kornberg, our President and Chief Executive Officer, David Johnson our Chief Operating Officer and Bob Myers our Chief Financial Officer. We have entered into employment agreements with all members of our senior management team and we plan to expand the relatively small number of executives in our company. We have expanded our staff hiring a new Vice-President of Sales and an experienced medical device engineer. Both have entered into employment agreements with the company. Our Director of Product Management has also entered into a new employment agreement with the company. Were we to lose one or more of these key individuals, 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 our limited working capital. We can give you no assurance that we can find satisfactory replacements for these key individuals at all, or on terms that are not unduly expensive or burdensome to our company.

However, we have issued stock options and other equity-based compensation to attract and retain employees, and are confident that our team is committed to the products success.

Our success is dependent on our ability to attract and retain technical personnel, sales and marketing personnel, and other skilled management.

Our success depends to a significant degree on our ability to attract, retain and motivate highly skilled and qualified personnel. Failure to attract and retain necessary technical, 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 early management team had limited public company experience, which could have impaired 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 substantially more 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 team has been able to implement and affect programs and policies in an effective and timely manner that adequately respond to such increased legal, regulatory compliance and reporting requirements. However, our failure to do so could lead to the imposition of fines and penalties and result in the deterioration of our business.

Costs incurred because we are a public company may affect our profitability.

As a public company, we incur significant legal, accounting, and other expenses, and we are subject to the SEC's rules and regulations relating to public disclosure that generally involve a substantial expenditure of financial resources. In addition, the Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC, requires changes in corporate governance practices of public companies. We expect that full compliance with such rules and regulations will significantly increase our legal and financial compliance costs and make some activities more time-consuming and costly, which may negatively impact our financial results. To the extent our earnings suffer as a result of the financial impact of our SEC reporting or compliance costs, our ability to develop an active trading market for our securities could be harmed.

Risks Related to Our Securities

There is currently a limited 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 further 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 a limited public trading market for our registered common stock. An application for quotation on the OTC Bulletin Board was submitted by a market maker who agreed to sponsor the security and who demonstrated compliance with Rule 15c2-11 of the Securities Exchange Act of 1934 (the "Exchange Act"). The application for quotation of our registered common stock on the OTC Bulletin Board was accepted on November 13, 2009. We also caused a different market maker to submit an application in April 2010, on our behalf to the Depository Trust Corporation (DTC) to become eligible for electronic trading ("DTC eligible"). We are currently approved for DTC electronic trading.

Even though our registered common stock is approved for quotation on the OTC Bulletin Board, the numbers of institutions or persons interested in purchasing our registered 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 become more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot assure you that an active public trading market for our registered 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 certain returns on their investment.

Even though our application for quotation on the OTC Bulletin Board has been accepted our stock 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.

Even though our application for quotation on the OTC Bulletin Board has been accepted, our registered common stock 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 went 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 and support for our shares of common stock in the public market. The price and trading volume of our registered common stock cannot be assured. The numbers of institutions or persons interested in purchasing our registered 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. In addition to trading on the OTC Bulletin Board, our ultimate intention is to apply for trading on either the Nasdaq Capital 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 currently do not meet the objective listing criteria for listing on those exchanges and 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.

In order for our registered common stock to be eligible to trade on the Nasdaq Capital Market, we would need, among other things, a bid price of $4.00, $5 million in stockholders' equity, and $15 million market value of publicly held shares. In order for our registered common stock to be eligible to trade on the NYSE Alternext U.S. LLC, which is a market for small and mid-sized companies, we would need, among other things, at least $3 million market value of public float, a minimum price of $3 and $4 million in shareholders' equity.

Currently, our market capitalization, revenues and stockholders' equity are insufficient to qualify for these exchanges. We also do not have a sufficient number of shareholders. We would also need to meet the corporate governance and independent director and audit committee standards of Nasdaq and/or the NYSE Alternext U.S. LLC. We do not satisfy such standards at this time.

The trading volume of our common stock 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.

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 net 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 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 some or all of their shares of common stock pursuant to Rule 144, promulgated under the Securities Act of 1933, as amended, (the "Securities Act") 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

All statements contained in this prospectus, other than statements of historical facts, that address future activities, events, or developments, are forward-looking statements, including, but not limited to, statements containing the words "believe," "anticipate," "expect," and words of similar import. These statements are based on certain assumptions and analyses made by us in light of our experience and our assessment of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. Whether actual results will conform to the expectations and predictions of management, however, is subject to a number of risks and uncertainties that may cause actual results to differ materially. Such risks are in the section herein entitled "Risk Factors," and in our previous SEC filings.

Consequently, all of the forward-looking statements made in this prospectus are qualified by these cautionary statements, and there can be no assurance that the actual results anticipated by management will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our business operations.

USE OF PROCEEDS

We will not receive any proceeds from the sale of the securities by the selling stockholders. All proceeds from the sale of the securities offered by the selling stockholders under this prospectus will be for the account of the selling stockholders, as described below in the sections entitled "Selling Security Holders" and "Plan of Distribution." With the exception of any brokerage fees and commissions that are the respective obligations of the selling stockholder, we are responsible for the fees, costs, and expenses of this offering, which includes our legal and accounting fees, printing costs, and filing and other miscellaneous fees and expenses.

PRICE OF AND DIVIDENDS ON COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is not listed on any stock exchange. Our common stock is quoted by the OTC Bulletin Board under the symbol "BIOR.OB." The following table sets forth the high and low bid information for our common stock for each quarter within our last two fiscal years as reported by the OTC Bulletin Board. The bid prices reflect inter-dealer quotations, do not include retail markups, markdowns, or commissions, and do not necessarily reflect actual transactions.

	High		Low	
2012				
Quarter ending December 31, 2012 (through October 15, 2012)	$	0.12	$	0.07
Quarter ended September 30, 2012	$	0.12	$	0.05
Quarter ended June 30, 2012	$	0.10	$	0.03
Quarter ended March 31, 2012	$	0.33	$	0.05
2011				
Quarter ended December 31, 2011	$	0.50	$	0.15
Quarter ended September 30, 2011	$	1.01	$	0.08
Quarter ended June 30, 2011	$	0.11	$	0.05
Quarter ended March 31, 2011	$	0.32	$	0.07
2010				
Quarter ended December 31, 2010	$	0.17	$	0.10
Quarter ended September 30, 2010	$	0.38	$	0.12
Quarter ended June 30, 2010	$	0.90	$	0.12
Quarter ended March 31, 2010	$		$	*

* Our common stock had no active trading market until April 2010.

As of October 15, 2012 the closing price for shares of our common stock was $0.09 per share on the OTC Bulletin Board.

Holders

As of October 15, 2012, there were approximately 167 stockholders of record of our common stock.

Dividends

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and the related notes appearing elsewhere in this prospectus. Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations, and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under the Special Note Regarding Forward-Looking Statements, Business, and Risk Factors sections in this prospectus.

Recent Developments

The paragraph below was not included in the June 30, 2012, and December 31, 2011, Management's Discussion and Analysis of Financial Condition and Resulting Operations. The subsequent sections beginning with "Overview" are as originally filed in content with some minor changes in paragraph placement for easier comparison.

Our cash balance was approximately $102,000 as of September 30, 2012. Our current operating expenses are approximately $125,000 per month. We have received advances on a convertible promissory note from an investment fund affiliated with one of our directors in the amount of $357,000; this allows the Company to receive another $242,700 up to an aggregate amount of $600,000. We also continue to complete a private sale of equity securities that will provide an additional $100,000 to $150,000 in funds. This funding will enable the Company to operate through the end of the 2012 fiscal year. We expect STREAMWAY FMS sales to increase in the next two quarters resulting from functional improvements to our product that addresses our customers' requirements. We have realized cost reductions for our product and disposables due to manufacturing efficiencies and supply chain development. Accordingly, our disposable sales will increase exponentially with the additional placement of our units. We still need to raise an aggregate of $2 million dollars from future financing in order to have sufficient financial resources to fund our operations for the next twelve months because of our cash flow deficit.

Overview

We were incorporated in Minnesota in April 2002. We are an early stage development company developing an environmentally conscientious system for the collection and disposal of infectious fluids that result from surgical procedures and post-operative care. We achieved our first sale in June 2009. Since our inception in 2002, we have invested significant resources into product development and in preparing for approval from 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-mounted Fluid Management System ("FMS") and use of our proprietary cleaning fluid.

Since inception, we have been unprofitable. We incurred a net loss of approximately $4,500,000 for the fiscal year ended 2011 and a net loss of approximately $2,849,000 for the six months ended June 30, 2012 compared to a loss of approximately $865,000 for the six months ended June 30, 2011. As of June 30, 2012 we had an accumulated deficit of approximately $14,718,000. 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 had focused on finalizing our production processes and obtaining final FDA clearance to sell our product to the medical facilities market. We obtained FDA final clearance on April 1, 2009. We intend to sell the FMS through experienced, independent medical distributors and manufacturer's representatives, who we believe will enhance acceptability of the FMS in the market. We have signed agreements with independent sales representatives and we continue to recruit more independent sales representatives and installation companies to meet our potential future needs. We achieved our first billable shipment in June 2009 and sold five STREAMWAY units in 2011. We have placed five additional units through October 2012 for a total of ten units in the marketplace. It is too early to know with a high degree of confidence how quickly, and in what amounts, new orders will develop.

As of June 30, 2012, we have funded our operations through a variety of debt and equity investments. We received a bank loan of $41,400, 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 our common stock. In August 2006, we secured a $10,000 convertible loan from one of our vendors. In February 2007, we obtained $4,000 in officer and director loans and in March 2007, we arranged a $100,000 convertible note from two private investors. In July 2007, we obtained a convertible bridge loan of $170,000. In June 2008, we paid off the remaining $18,000 loan from WREF and raised approximately $1.6 million through our October 2008 financing. The $170,000 convertible bridge loan and the $4,000 in officer and director loans were converted into shares of our common stock in October 2009. During 2009, we raised an additional $725,000 in a private placement of stock units and/or convertible debt, with each stock or debt unit consisting of, or converting into, respectively, one share of our common stock, and a warrant to purchase one share of our common stock at $.65 per share.

In 2010, we raised approximately $605,000 from the issuance of convertible debt and approximately $220,000 from the sale of units of stock and warrants. The conversion price on the debt and the unit price of the stock and warrants ranged from $.10 to $.65 per share. In 2011 we funded our operations through private investors, largely consisting of convertible debt and notes, equaling $525,500, and by $1,386,000 from the issuance of common stock. This amount includes loans totaling $240,000 from Dr. Samuel Herschkowitz. In March 28, 2012, we issued a 20.0% convertible note due June 20, 2012 in the principal amount of $240,000 for previous advances. Effective August 15, 2012, the Company entered into a settlement and forbearance agreement with Dr. Herschkowitz and SOK Partners, a related party, in connection with defaults under a Company note held by Dr. Herschkowitz and other matters.

In 2012, we have received advances on a convertible promissory note from SOK Partners, LLC, an investment fund affiliated with Dr. Herschkowitz and Joshua Kornberg, our President and Chief Executive Officer and a member of our Board of Directors, with a commitment from SOK Partners to make advances up to an aggregate amount of $600,000. Advances have totaled approximately $357,000 through June 30, 2012.

As of September 30, 2012, we have $688,000 in principal and accrued interest on debts that are past due and/or in default. We are attempting to persuade the holders of a portion of debt to convert it into common stock or to negotiate a restructuring of such debt. The holders of debt representing $418,000 in principal and accrued interest have threatened legal action against the company. If the Company cannot repay or restructure the indebtedness and if such holders commence legal action, the Company may be subject to litigation expense and possible judgments against the Company, and the holders could assert various remedies including forcing the Company into involuntary bankruptcy proceedings.

In June 2012, the Company raised an additional $180,000 from a private placement of stock units and warrants, each share of stock purchased at $.07 per share and each accompanying warrant to purchase a share of stock at $.15 per share. As of September 30, 2012 the Company raised an additional $253,444 from the private placement bringing the aggregate to $433,444.The Company will attempt to raise an additional $66,556 from the private placement offering.

Even assuming we can successfully restructure our indebtedness, we do not expect to generate sufficient revenues in 2012 to fund our capital requirements. Our future cash requirements and the adequacy of available funds will depend on our ability to sell our STREAMWAY FMS and related products. We expect that we will require additional funding to finance operating expenses and to enter the international marketplace. We believe that we will need to raise at least an aggregate of $2 million from future financing in order to have sufficient financial resources to fund our operations for the next 12 months because of our cash flow deficit. We will attempt to raise these funds through equity or debt financing, alternative offerings or other means, and we will also endeavor to convert existing obligations into equity, settle such obligations or otherwise reduce their amounts. We are not planning on any significant capital or equipment investments, and we will only have a few human resource additions over the next 12 months.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our audited Financial Statements, which have been prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of our financial statements, the reported amounts of revenues and expenses during the reporting periods presented, as well as our disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and assumptions, including, but not limited to, fair value of stock-based compensation, fair value of acquired intangible assets and goodwill, useful lives of intangible assets and property and equipment, income taxes, and contingencies and litigation.

We base our estimates and assumptions on our historical experience and on various other information available to us at the time that these estimates and assumptions are made. We believe that these estimates and assumptions are reasonable under the circumstances and form the basis for our making judgments about the carrying values of our assets and liabilities that are not readily apparent from other sources. Actual results and outcomes could differ from our estimates.

Our significant accounting policies are described in Note 1 to our financial statements included elsewhere in this prospectus. We believe that the following discussion addresses our critical accounting policies and reflects those areas that require more significant judgments, and use of estimates and assumptions in the preparation of our financial statements.

Revenue Recognition . We recognize revenue in accordance with the SEC’s Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* , as amended by Staff Accounting Bulletin No. 104 (together, SAB 101) and ASC 605- *Revenue Recognition*.

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable and collectability is probable. Delivery is considered to have occurred upon either shipment of the product or arrival at its destination based on the shipping terms of the transaction. Our standard terms specify that shipment is FOB BioDrain, and we will, therefore recognize revenue upon shipment in most cases. This revenue recognition policy applies to shipments of our FMS units as well as shipments of cleaning solution kits. When these conditions are satisfied, we recognize gross product revenue, which is the price we charge generally to our customers for a particular product. Under our standard terms and conditions, there is no provision for installation or acceptance of the product to take place prior to the obligation of the customer. The customer’s right of return is limited only to our standard one-year warranty, whereby we replace or repair, at our option. We believe it would be rare that the FMS unit or significant quantities of cleaning solution kits may be returned. Additionally, since we buy both the FMS units and cleaning solution kits from “turnkey” suppliers we would have the right to replacements from the suppliers if this situation should occur.

Stock-Based Compensation . Effective January 1, 2006, we adopted ASC 718- *Compensation-Stock Compensation* (“ASC 718”). Under ASC 718 stock-based employee compensation cost is recognized using the fair value based method for all new awards granted after January 1, 2006 and unvested awards outstanding at January 1, 2006. Compensation costs for unvested stock options and non-vested awards that were outstanding at January 1, 2006, are being recognized over the requisite service period based on the grant-date fair value of those options and awards as previously calculated under SFAS 123 for pro forma disclosures, using a straight-line method. We elected the modified-prospective method in adopting ASC 718 under which prior periods are not retroactively restated.

ASC 718 requires companies to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model. We use the Black-Scholes-Merton option-pricing model which requires the input of significant assumptions including an estimate of the average period of time employees and directors will retain vested stock options before exercising them, the estimated volatility of our common stock price over the expected term, the number of options that will ultimately be forfeited before completing vesting requirements and the risk-free interest rate.

Because we do not have significant historical trading data on our common stock we relied upon trading data from a composite of 10 medical companies traded on major exchanges and 15 medical companies quoted by the OTC Bulletin Board to help us arrive at expectations as to volatility of our own stock when public trading commences. Likewise, we have no history of option and warrant exercises because there was no liquidity in our stock as a private company and we were required to make a significant judgment as to expected option and warrant exercise patterns in the future regarding employee and director options and warrants. In the case of options and warrants issued to consultants and investors we used the legal term of the option/warrant as the estimated term unless there was a compelling reason to use a shorter term. The measurement date for employee and non-employee options and warrants is the grant date of the option or warrant. The vesting period for options that contain service conditions is based upon management's best estimate as to when the applicable service condition will be achieved. Changes in the assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related expense recognized. The assumptions we use in calculating the fair value of stock-based payment awards represent our best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and we use different assumptions, our equity-based compensation expense could be materially different in the future. See Note 3.

When an option or warrant is granted in place of cash compensation for services we deem the value of the service rendered to be the value of the option or warrant. In most cases, however, an option or warrant is granted in addition to other forms of compensation and its separate value is difficult to determine without utilizing an option pricing model. For that reason we also use the Black-Scholes-Merton option-pricing model to value options and warrants granted to non-employees, which requires the input of significant assumptions including an estimate of the average period that investors or consultants will retain vested stock options and warrants before exercising them, the estimated volatility of our common stock price over the expected term, the number of options and warrants that will ultimately be forfeited before completing vesting requirements and the risk-free interest rate. Changes in the assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related expense recognizes that. Since we have no trading history in our common stock and no first-hand experience with how our investors and consultants have acted in similar circumstances, the assumptions we use in calculating the fair value of stock-based payment awards represent our best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and we use different assumptions, our equity-based consulting and interest expense could be materially different in the future.

Since our common stock has no significant public trading history we were required to take an alternative approach to estimating future volatility and the future results could vary significantly from our estimates. We compiled historical volatilities over a period of 2-7 years of 15 small-cap medical companies traded on major exchanges and ten medical companies in the middle of the market cap size range on the OTC Bulletin Board and combined the results using a weighted average approach. In the case of standard options to employees we determined the expected life to be the midpoint between the vesting term and the legal term. In the case of options or warrants granted to non-employees we estimated the life to be the legal term unless there was a compelling reason to make it shorter.

Valuation of Intangible Assets . We review identifiable intangible assets for impairment in accordance with ASC 360- Property Plant and Equipment ("ASC 360"), whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Our intangible assets are currently solely the costs of obtaining trademarks and patents. Events or changes in circumstances that indicate the carrying amount may not be recoverable include, but are not limited to, a significant change in the medical device marketplace and a significant adverse change in the business climate in which we operate. If such events or changes in circumstances are present, the undiscounted cash flows method is used to determine whether the intangible asset is impaired. Cash flows would include the estimated terminal value of the asset and exclude any interest charges. If the carrying value of the asset exceeds the undiscounted cash flows over the estimated remaining life of the asset, the asset is considered impaired, and the impairment is measured by reducing the carrying value of the asset to its fair value using the discounted cash flows method. The discount rate utilized is based on management's best estimate of the related risks and return at the time the impairment assessment is made.

Recent Accounting Developments

See Note 1 - "Summary of Significant Accounting Policies" to the Condensed Financial Statements of this Quarterly Report on Form 10-Q for a discussion of recent accounting developments.

Results of Operations

Three months and six months ended June 30, 2012 and 2011

Revenue. The Company recorded $47,595 of revenue in the six months ended June 30, 2012 and $2,374 in revenue in the six months ended June 30, 2011. The Company recorded $24,960 of revenue in the three months ended June 30, 2012 and $2,374 in revenue in the three months ended June 30, 2011.The revenue in the first and second quarters of 2012 was for disposable supplies purchased by customers that acquired the STREAMWAY FMS units in 2011. The Company has installed STREAMWAY units in hospitals for evaluation purposes and, in one case, for production purposes, and has seen revenue for disposables increase. As the STREAMWAY units are achieving success we expect revenue to increase significantly at such time as the hospitals approve the use of the unit for their application and place orders for billable units.

Cost of sales. Cost of sales in the six months ended June 30, 2012 was $15,516 and $1,820 in the six months ended June 30, 2011. Cost of sales in the three months ended June 30, 2012 was $1,710 and $1,820 in the three months ended June 30, 2011.The gross profit margin was approximately 67% for both the hardware and the cleaning solution kits in the six months ended June 30, 2012 and 23% in the six months ended June 30, 2011. As revenues increase, gross margins will depend on various factors including manufacturing costs and volume purchasing discounts on both the equipment and the cleaning solution. Over the next several quarters, increases in revenues are expected to lag increases in related costs related to increasing manufacturing and sales capabilities, as customers complete their evaluations and place orders for billable units and the revenues are collected. In general, over the next several quarters, gross margins are expected to be volatile as revenues increase.

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

General and Administrative (G&A) expenses increased by $1,931,000 from the six months ended June 30, 2012 compared to June 30, 2011. General and Administrative (G&A) expenses increased by $1,678,000 from the three months ended June 30, 2012 compared to June 30, 2011.The increase in the six month period was due to a $1,740,000 expense for investor stock compensation, a method of remuneration to an investor in lieu of cash by issuing stock in an amount equal to the expense that was recorded in the six months ended June 30, 2012 compared to $0 in the six months ended June 30, 2011. Professional fees, legal and accounting, increased by $246,820 from the six months ended June 30, 2012 compared to June 30, 2011. The professional fees were high in part as compensation for the Acting CFO. The Acting CFO has been appointed as CFO effective July 1, 2012, by the Board of Directors. The increase was offset, in part, by a decrease of $18,000 in administrative salaries as the Company employees accepted a 25% salary reduction, and $66,000 in outside consulting. The increase in the three month period was due to a $1,440,000 expense for investor stock compensation recorded in the three months ended June 30, 2012 compared to $22,000 in the three months ended June 30, 2011. Total G&A expenses are expected to increase as we ramp up for increased sales and manufacturing including but not limited to investor relations expenses, administrative salaries as well as continued audit and legal fees.

Operations expense. Operations expense primarily consists of expenses related to product development and prototyping and testing in the company's current stage.

Operations expense decreased by $48,821 in the six months ended June 30, 2012 compared to the six months ended June 30, 2011. Operations expense decreased by $27,000 in the three months ended June 30, 2012 compared to the three months ended June 30, 2011. The decrease in expense in the 2012 first and second quarters is primarily due to a $44,000 reduction in operating salaries as the Company employees accepted a 25% salary reduction and by $116,865 in manufacturing supplies expenses due to reduced hardware sales. There was an offset of $97,400 in consulting primarily due to the Company Acting COO and contracted engineer. The Acting COO has been appointed as COO effective July 1, 2012, by the Board of Directors. Operations expense in the next several quarters is expected to increase significantly as the Company expects to increase shipments of the STREAMWAY unit as customers complete their evaluations and place orders for billable units. Although we are attempting to curtail our expenses, there is no guarantee that we will be able to reduce these expenses significantly, and expenses for some periods may be higher as we prepare our product for broader sales, increase our sales efforts and maintain adequate inventories.

Sales and Marketing expense. Sales and marketing expense consists of expenses required to sell products through independent reps, attendance at trades shows, product literature and other sales and marketing activities .

Sales and marketing expenses decreased by $27,194 in the six months ended June 30, 2012 compared to the six months ended June 30, 2011. Sales and marketing expenses decreased by $39,400 in the three months ended June 30, 2012 compared to the three months ended June 30, 2011. We replaced the VP of Sales, and he accepted the same 25% reduction in payroll as the rest of the Company decreasing sales salaries by $17,630 through June 2012 as compared to June 2011. There was a decrease in stock based compensation by $21,455 in the six months ended June 30, 2012 compared to the six months ended June 30, 2012. There were offsetting increases in the six months ended June 30, 2012 - $6,000 in Travel & Expense and a $13,000 increase incurred in commission expense relating to current sales.

Interest expense . Interest expense increased by $29,673 in the six months ended June 30, 2012 compared to the six months ended June 30, 2011. Interest expense increased by $32,000 in the three months ended June 30, 2012 compared to the three months ended June 30, 2011.

The (Gain)/Loss on revaluation of equity-linked financial instruments reflected a gain of $59,597 in the six months ended June 30, 2012 compared to a gain of $190,915 in the six months ended June 30, 2011. The (Gain)/Loss on revaluation of equity-linked financial instruments reflected a gain of $58,947 in the three months ended June 30, 2012 compared to the three months ended June 30, 2011. The reduction in gain in the current periods resulted from a narrowing of the spread between the exercise price on warrants and convertible notes and the relatively stable, but low, market price of the underlying stock in recent months.

Comparison of Fiscal Year Ended December 31, 2011 and December 31, 2010

Revenue . We recorded revenue of $96,637 in 2011 compared to $288 in 2010. We received approval from the FDA on April 1, 2009 to commence sales and marketing activities of the patented Streamway™ FMS system and recorded its first shipment in June 2009. Since the system was first approved for sale during 2009 there was no revenue in 2008 or prior years, and there was no significant revenue in 2010 primarily due to lack of funds to build and ship the products. The revenue in 2011 included the sale of five Streamway™ systems and disposable supplies to operate the Streamway™. Revenue in 2010 was solely for disposable supplies for an evaluation unit. The Company has recently begun installing Streamway™ units in hospitals for evaluation purposes and, in one case, for production purposes, and expects the revenue for Streamway™ units to increase significantly at such time as the hospitals approve the use of the unit for their application and place orders for billable units.

Cost of sales . Cost of sales was $56,080 in 2011 compared to $140 in 2010. The gross profit margin was 42% for the system and the procedure kits in 2011.

General and Administrative expense . General and administrative (G&A) expense primarily consists of management salaries, professional fees, consulting fees, travel expense, administrative fees and general office expenses.

G&A expense increased to $3,562,000 for 2011 from $1,874,000 for 2010. The $1,688,000 increase in G&A expenses for 2011, compared to 2010, is primarily due to a $1,466,000 increase in consulting expense, a $272,000 increase in Investor Relation expenses, offset somewhat by $114,000 reduction in legal expense. Although we have continued to compensate consulting with stock-based instruments, the total value of the stock and the number of shares has decreased. Salary expense declined in 2011 in comparison to 2010 due to a $70,000 charge to expense in 2010 to estimate the costs to settle a termination matter with a former officer. Total G&A expenses are expected to increase due to increased insurance premiums, investor relations expenses and audit and legal fees, resulting from becoming a public company, but otherwise remain relatively constant over the next several quarters.

Operations expense . Operations expense primarily consists of expenses related to product development and prototyping and testing in the Company's current stage.

Operations expense increased to $352,000 in 2011 compared to $277,000 in 2010. The $75,000 increase in operations expense in 2011 is primarily due to an increase of $76,000 in stock-based compensation and an increase in manufacturing supplies and components expense of $19,000 for the year as the operations department continued to revise and adjust various parts and components in the Streamway™ unit to respond to results of operating the equipment in live surgical settings. Operations expense in the next several quarters is expected to increase significantly as the Company expects to increase shipments of the Streamway™ unit as customers complete their evaluations and place orders for billable units. Although we are attempting to curtail our expenses, there is no guarantee that we will be able to reduce these expenses significantly, and expenses for some periods may be higher as we prepare our product for broader sales, increase our sales efforts and maintain adequate inventories.

Sales and marketing expense . Sales and marketing expense consists of expenses required to sell products through independent reps, attendance at trades shows, product literature and other sales and marketing activities.

Sales and marketing expense increased to $233,000 in 2011 compared to $200,000 in 2010. During the last several quarters, we have operated on a very slim marketing budget as a result of limited funding. The increase in 2011 is primarily the result of a decrease of $67,000 in salary expense offset, in part, by an increase of $87,000 in stock-based compensation and an increase of $43,000 in sales commissions. Sales and marketing expense is expected to increase significantly in the future as we expect to hire a Vice President of Sales and we expect to hire additional sales and sales support personnel and increase our trade show, promotion and travel expense significantly after we receive significant funding.

Interest expense . Interest expense increased to $230,000 in 2011 from $147,000 in 2010. The increase in interest expense was due to a higher level of interest-bearing debt and amortization of larger debt discounts attributable to new convertible debt issued with warrants.

Loss (gain) on valuation of equity-linked financial instruments. The Company realized a loss of $151,000 on valuation of equity-linked financial instruments in 2011 compared to a gain of $1,145,000 in 2010. The loss in 2011 resulted primarily from an extension of terms on warrants. The gain or loss in this account in the future will largely depend on the price performance of our stock in the future.

Liquidity and Capital Resources

Cash Flows for the Six Months Ended June 30, 2012

Net cash used in operating activities was $644,105 for June 2012 compared with net cash used of $807,783 for June 2011. The $163,678 decrease in cash used in operating activities was largely due to an increase in net loss of $1,984,323 offset by $1,726,630 increase in equity instruments issued for management and consulting as well as increases in accounts payable, accrued expenses and vested stock options and warrants.

Cash flows used in investing activities was zero for both June 2012 and June 2011. There have been no investing activities since we invested in new furniture and patents in 2008. We will likely increase our cash used in investing activities in the next several quarters as we prepare to support the expected growth in sales.

Net Cash provided by financing activities was $556,403 for June 2012 compared to net cash provided of $856,038 for June 2011. The decrease in June 2012 was mostly due to a reduced issuance of common stock. We expect to show additional cash provided by financing activities in the next few quarters provided we are successful in raising capital.

Cash Flows for the Fiscal Year Ended December 31, 2011

We had a cash balance of $122,985 as of December 31, 2011 and $9,383 as of December 31, 2010. Since our inception, we have incurred significant losses. As of December 31, 2011, we had an accumulated deficit of approximately $11,869,000. We have not achieved profitability and anticipate that we will continue to incur net losses for the foreseeable future. We expect that our operations, sales and marketing, and general and administrative expenses will increase, and as a result we will need to generate significant revenue to achieve profitability.

There is no certainty that access to needed capital will be successful. We have not depended on the future exercise of outstanding warrants to provide additional funding.

To date, our operations have been funded through a bank loan and private convertible debt of approximately $1,584,000 and equity investments totaling approximately $3,923,000. As of December 31, 2011, we had accounts payable of $731,000 and accrued liabilities of $567,000. Account payable has declined to $731,000 as of December 31, 2011 from $769,000 as of December 31, 2010 primarily due to the issuance of a convertible note in the amount of $89,300 to one of our law firms as full settlement of the accounts payable balance as of January 1, 2011.

Net cash used in operating activities was $1,781,631 for 2011 compared with net cash used of $821,000 for 2010. The $961,000 increase in cash used in operating activities was largely due to a $3,134,000 increase in the net loss in 2011, compared to 2010, offset by an increase of $3,137,000 in non-cash expenses compared to 2010.

Cash flows used in investing activities was zero for 2011 and 2010. There have been no investing activities since we invested in new furniture and patents in 2008. We will likely increase our cash used in investing activities in the next several quarters as we prepare to support the expected growth in sales.

Net cash provided by financing activities was $1,895,000 for 2011 compared to net cash provided of $813,000 for 2010. The increase in 2011 was primarily the result of selling $1,386,000 in common stock in 2011 compared to $220,000 in 2010. We expect to show additional cash provided by financing activities in the next few quarters provided we are successful in raising money with our investment banker.

Capital Structure and Plan of Financing at June 30, 2012

We had a cash balance of $35,283 as of June 30, 2012 and $57,638 as of June 30, 2011. Since our inception, we have incurred significant losses. As of June 30, 2012; we had an accumulated deficit of approximately $14,718,000. We have not achieved profitability and anticipate that we will continue to incur net losses for the foreseeable future. We expect that our operations expense, including product development expense, sales and marketing and general and administrative expenses will increase, and as a result we will need to generate significant revenue to achieve profitability.

There is no certainty that access to needed capital will be successful. We have not depended on the future exercise of outstanding warrants to provide additional funding.

To date, our operations have been funded through a bank loan and private convertible debt of approximately $2,178,500 and equity investments totaling approximately $4,107,000. As of June 30, 2012, we had accounts payable of $663,000 and accrued liabilities of $578,000.

Other Restructuring. The Company continues an ongoing restructuring process negotiating with a significant number of creditors other than Dr. Herschkowitz and SOK to convert their indebtedness into common stock.

Capital Resources

Based on our current operating plan we believe that we have sufficient cash, cash equivalents and short-term investment balances to last approximately through June 30, 2012 after which additional financing will be needed to continue to satisfy our obligations. While holders of our warrants could exercise and provide cash to us during that time frame, we are not depending on that in our fundraising efforts.

The funds from our October 2008 offering allowed us to complete the testing and certification of our FMS unit and to receive, on April 1, 2009, final FDA clearance. Management hired an investment banker in 2010 to raise an additional $3 to $5 million in new equity. The banker was unable to raise the expected $500,000 by September 30, 2010 and the balance within three months, but we raised approximately $229,000 in equity and $605,000 in convertible debt in 2010, and $1,386,000 in equity and $525,000 in convertible debt in 2011 through alternative means.

We are currently incurring operating expenses of approximately $100,000 per month. Although we are attempting to curtail our expenses, there is no guarantee that we will be able to reduce these expenses significantly, and expenses for some periods may be higher as we prepare our product for broader sales, increase our sales efforts and maintain adequate inventories. Further, we have approximately $2,382,000 in debts, liabilities and cash obligations that become due in the second and third quarters of calendar 2012. We are currently receiving advances on a convertible promissory note from an investment fund affiliated with one of our directors, up to an aggregate amount of $600,000. We also continue to make private sales of equity securities. We believe that we will need to raise at least an aggregate of $2 million from future financing in order to have sufficient financial resources to fund our operations for the next 12 months because of our cash flow deficit. We will attempt to raise these funds through equity or debt financing, alternative offerings or other means, and we will also endeavor to convert existing obligations into equity, settle such obligations or otherwise reduce their amounts. We are not planning on any significant capital or equipment investments, and we will only have a few human resource additions over the next 12 months.

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. If financing is available, it may be highly dilutive to our existing shareholders and may otherwise include burdensome or onerous terms. Our independent registered public accounting firm has indicated in their audit opinion, contained in our financial statements that they have serious doubts about our ability to continue as a going concern.

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 declare bankruptcy, reorganize or to go out of business. Should this occur, the value of any investment in our securities could be adversely affected, and an investor would likely lose all or a significant portion of their investment.

BUSINESS

Overview

We are an early stage medical device company, and our mission is to provide hospitals and surgical centers 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 healthcare workers from exposure and is environmentally friendly. We own 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, we believe our technologies will provide cost savings to facilities over the aggregate costs incurred today using the traditional canister method of collection, neutralization, and disposal. We intend to sell our products through independent distributors and manufacturer's 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 Gadbaw, who has over 40 years of experience in the medical devices field, Peter L. Morawetz, who has extensive experience consulting with development-stage companies in the medical and high technology field, and Jeffery K. Drogue. Our address is 2915 Commers Drive, Suite 900, Eagan, Minnesota 55121. Our telephone number is (651) 389-4800, and our website address is www.biodrainmedical.com.

Industry and Market Analysis

Infectious and Bio-hazardous Waste Management

There has long been recognition of the collective potential for ill effects to healthcare workers from exposure to infectious/bio-hazardous materials. Federal and state regulatory agencies have issued mandatory guidelines for the control of such materials, and 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, 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.

The majority of these procedures produce potentially infectious materials that must be disposed 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 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 from April 24, 2006 estimates that 60,000,000 suction canisters are sold each year and the estimated market value of canisters is upwards of $120,000,000.

According to the average estimate of three manufacturers and three different solidifiers as reported in a research report by Frost & Sullivan in 2003 and in an article titled "Liquid Waste Management & Disposal" that was published in *Infection Control Today* in 2006, there is 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 cost increases significantly for disposal of higher capacity containers.

A study by the Lewin Group, prepared for the Health Industry Group Purchasing Association in April 2007, reports that infectious fluid waste accounts for more than 75% of U.S. hospitals biohazard disposal costs. The study 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 in 2009, followed by an additional 5 percent gain in 2010."

There are currently approximately 40,000 operating rooms and surgical centers in the U.S. (AHA, *Hospital Statistics* , 2008). 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 heavily dependent on the state of the economy. We benefit by having our products address both the procedure market of nearly 70 million procedures (AHA, *Beyond Health Care* , January 2009) 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 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 no 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 is typically 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 powder is poured into the canister, rendering the material gelatinous. These gelled canisters are then red-bagged in their entirety and removed to a bio-hazardous/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 his or her 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 his or her 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. Canisters are the most prevalent means of collecting and disposing of infectious fluids in hospitals today. Traditional, non-powered canisters and related suction and fluid disposable products are exempt and do not require FDA clearance. We believe that our virtually hands free technology will (a) significantly reduce the risk of healthcare worker exposure to these infectious fluids by replacing canisters, (b) further reduce the risk of worker exposure when compared to powered canister technology that requires transport to and from the operating room, (c) reduce the cost per procedure for handling these fluids, and (d) enhance the surgical team's ability to collect data to accurately assess the patient's status during and after procedures.

In addition to the traditional canister method of waste fluid disposal, several new powered medical devices have been developed which address some of the deficiencies described above. MD Technologies, Inc., DeRoyal (formerly Waterstone), Dornoch Medical Systems, Inc. and Stryker Instruments 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 and most are sold with 510(k) concurrence from the FDA. Cardinal Health, Inc. has received 510(k) concurrence to market a similar device that it has recently started advertising. Most of these competing products 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. Our existing competitors that already have products on the market have a clear competitive advantage over us in terms of brand recognition and market exposure. In addition, the aforementioned companies have extensive marketing and development budgets that could overpower an early stage company like ours. We believe that Stryker Instruments has the dominant market share position. We do not believe Cardinal Health, Inc., though having FDA concurrence, has made significant sales into the market.

Products

The Streamway™ Fluid Management System ("FMS")

The Streamway™ FMS, a fluid collection and measurement system, addresses the need for a simple, safe, virtually hands-free, touch-screen computer-controlled, method of removing, retaining, calculating fluid loss, and disposing of fluid waste during operative procedures. The FMS will replace the manual process of collecting fluids in canisters and transporting and dumping in sinks outside of the operating room that is still being used by many hospitals and surgical centers. The manual process, involving canisters, requires that the operating room personnel open the canisters that contain waste fluid, often several liters, at the end of the surgical procedure and either add a solidifying agent or empty the canisters in the hospital drain system. Some facilities require that used canisters be cleaned by staff and reused. It is during these processes that there is increased potential for contact with the waste fluid through splashing or spills. The FMS eliminates the use of canisters and these cleaning and disposal steps by collecting the waste fluid in the internal collection chamber and automatically disposing of the fluid with no handling by personnel. Each procedure requires the use of a disposable filter. At 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 cleaning fluid bottle is attached to the port on the FMS device. The cleaning fluid bottle and its contents are not contaminated and are used to clean the internal fluid pathway in the FMS device to which personnel have no exposure. During the cleaning cycle, the cleaning fluid is pulled from the bottle into the FMS, and then disposed in the same manner as the waste fluid from the surgical case. At the end of the cleaning cycle, the bottle is discarded. The filter and any suction tubing used during the procedure must be disposed of in the same manner as suction tubing used with the canister system. Handling of this tubing does present the potential for personnel exposure but that potential is minimal.

We believe our product provides substantial cost savings and improvements in safety in facilities that still use manual processes. In cases where healthcare organizations re-use canisters, the FMS cleaning process eliminates the need for cleaning of canisters for re-use. The FMS reduces the safety issues facing operating room nurses, the cost of the handling process, and the amount of infectious waste generated when the traditional method of disposing of canisters is used. The FMS is fully automated, does not require transport to and from the operating room and eliminates any canister that requires emptying. It is positioned to penetrate its market segment due to its virtually hands free operation, simple design, ease of use, continuous suction, unlimited capacity and efficiency in removal of infectious waste with minimal exposure of operating room personnel to potentially infectious material.

In contrast 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. It does require a dedicated system in each operating room where it is to be used. With the exception of MD Technologies, Inc., the FMS will be the only known system that is wall-mounted and designed to collect, measure and dispose of, surgical waste. The product from DeRoyal does not collect surgical waste fluid and is used in conjunction with traditional canisters to assist in emptying the canisters. Other systems on the market are portable, meaning that they are rolled to the bedside for the surgical case and then rolled to a cleaning, after the surgery is complete, and use canisters, which still require processing or require a secondary device (such as a docking station) to dispose of the fluid in the sanitary sewer after it has been collected. They are essentially powered canisters. A comparison of the key features of the devices currently marketed and the FMS is presented in the table below.

Key Feature Comparison

Feature	BioDrain Medical, Inc.	Stryker Instruments	DeRoyal	Dornoch Medical Systems, Inc.	MD Technologies, Inc.
Portable to Bedside vs. Fixed Installation	Fixed	Portable	Fixed	Portable	Fixed
Uses Canisters	No	Yes	Yes	Yes	No
Secondary Installed Device Required for Fluid Disposal	No	Yes	Yes	Yes	No
Numeric Fluid Volume Measurement	Yes	Yes	No	Yes	Optional
Unlimited Fluid Capacity	Yes	No	No	No	Yes
Continuous, Uninterrupted Vacuum	Yes	No	No	No	No
Installation Requirements :					
Water	No	Yes	Yes	Yes	No
Sewer	Yes	Yes	Yes	Yes	Yes
Vacuum	Yes	Yes	Yes	Yes	Yes

The FMS system may be installed on or in the wall during new construction or renovation or installed in a current operating room by connecting the device to the hospital's existing sanitary sewer drain and wall suction systems. With new construction or renovation, the system will be placed in the wall and the incremental costs are minimal, limited to connectors to the hospital drain and suction systems (which systems are already required in an operating room), the construction of a frame to hold the FMS in position, and minimal labor. The fluid collection chamber is internal to the FMS unit and requires no separate installation. Based upon our consultations with several architects, we believe that there is no appreciable incremental expense in planning for the FMS system during construction.

For on-the-wall installation in a current operating room, the location of the FMS may be chosen based on proximity to the existing hospital drain and suction systems. Installation will require access to those systems through the wall and connection to the systems in a manner similar to that for within-the-wall installation. The FMS system is mounted on the wall using a mounting bracket supplied with the system and standard stud or drywall attachments.

By comparison, the majority of competing products are mobile, allowing movement from room to room. The mobility adds time and labor to the process and increases the chance of worker exposure to waste fluids but also allows the hospital to potentially purchase less than one mobile unit for each operating room. With the FMS, a unit much be installed in each room where it is intended to be used.

Once installed, the FMS has two inflow ports positioned on the front of the device that effectively replace the current wall suction ports most commonly used to remove fluids during surgery. Additionally, a disposable external filter, which is provided as part of our disposable cleaning kit, allows for expansion to two inflow suction ports per filter.

Although the FMS is directly connected to the sanitary sewer, helping to reduce potential exposure to infectious fluids, it is possible that installation of the system will cause inconvenience and lost productivity as the operating rooms will need to be temporarily shut down. In addition, remodel work may be necessary in preparation for, or as a result of, an installation. In some cases, the costs to rework plumbing lines to accommodate the system may outweigh the expected savings and/or lengthen the expected return on investment time.

One of the current techniques utilized by Stryker, Cardinal Health, and other smaller companies typically utilizes 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 to infectious waste fluids generated by the operating room procedure. Handling infectious waste in this manner is also more costly.

FMS suctions potentially infectious fluid from the patient through standard surgical tubing into the FMS. There the fluid is separated from the air stream and deposited into a fluid chamber 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 chamber 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 at that point in the procedure. The fluid removed from the fluid chamber is passed through the pump and transported directly to the hospital sanitary sewer.

The FMS has undergone significant testing and has now been utilized in over 7000 live surgeries. We do not currently have sufficient resources to fund the potential ramp-up in production and will need to raise a minimum of $1 million to fund this activity. We can provide no assurance that this funding will be available at attractive prices or at all. We currently are manufacturing the FMS system to revised specifications in low quantities in our facility. We are following GMP regulations to ensure FDA compliance to our operational activities. As FMS system sales rise we will analyze partnering with a qualified contract manufacturer versus expanding our operations to accommodate higher production capabilities.

We filed a 510(k) submission in March 2009 and received written FDA clearance on April 1, 2009 (K090759). The unit is classified as a Class II device by the FDA.

A summary of the features of the wall unit include:

- <u>Minimal Human Interaction</u>. The wall-mounted FMS provides 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.

- <u>Fluid Measurement</u>. 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 for the automated cleaning cycle at the conclusion of each procedure prepares the FMS for the next use, reducing operating room turnover time. The cleaning kit includes the BioDrain proprietary cleaning fluid for cleaning the internal tubing, pathways, and chamber within the FMS unit and a disposable external filter required for each surgical procedure. The cleaning solution bottle is attached to the FMS with a cleaning fluid adapter, which is designed to mate with the special connector on the FMS. One or two filters, depending on the type of procedure, will be supplied with each bottle of cleaning fluid for each use of the FMS. The disposable cleaning fluid bottle collapses at the end of the cleaning cycle rendering it unusable; therefore it cannot be refilled with any other solution. The instructions for use clearly state that the FMS cleaning fluid, and only the FMS cleaning fluid, must be used with the FMS following each surgical case. The filter is also proprietary to the FMS and is designed to allow supply only from BioDrain. The cleaning fluid and filter are expected to 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 minimizing the learning curve for operation at the surgical site.

- Installation . We will arrange installation of the FMS products through a partnership or group of partnerships. Such partnerships will include, but not be limited to, distribution partners, manufacturer's representatives, hospital bioengineering departments, 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-mounted units allowing for quick start-up post-installation.

- Sales Channel Partners. We expect the FMS will be sold to end-users through a combination of independent stocking distributors, manufacturer's representatives, and direct sales personnel. We intend for all personnel involved in direct contact with the end-user will have extensive training and will be approved by BioDrain. We plan to maintain exclusive agreements 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 expect that such agreements will contain provisions allowing them to be terminated at any time by BioDrain based on certain specified conditions.

- Competitive Pricing. The estimated sales price to a hospital or surgery center is in the range of $15,000 - $18,000 per system (one per operating room - installation extra) and $15 - $20 per unit retail for the proprietary consumable kit to the U.S. hospital market.

Patents and Intellectual Property

We had no research and development costs in 2011, and spent approximately $10,000 in 2010 on research and development. During the six months ended June 30, 2012, we had no R&D costs, but expect a significant increase in such costs over the next six months.

We received a European patent in April 2007 (Patent No. EP1539580), a U.S. patent in December 2008 (U.S. Patent No. 7,469,727) a U.S. patent in February 2012 (U.S. Patent No. 8,123,731, and a Canadian patent in April 2011 (Number 2,495,747) (collectively, the "Patents"). These Patents will expire on August 8, 2023. We also have a divisional application pending before the U.S. Patent Office. A feature claimed in the Patents is the ability to continue suctioning waste fluids into a collection chamber, to measure the fluid collected, and to pump that collected fluid from the collection chamber all while negative pressure is being maintained. This provides for continuous operation of the FMS unit in suctioning waste fluids, which means that the unit never has to be shut off or paused during a surgical operation, for example, to empty a fluid collection container or otherwise dispose of the collected fluid. We believe that this continuous operation feature provides us with a significant competitive advantage, particularly on large fluid generating procedures. All competing products, except for MD Technologies, have a finite fluid collection capacity necessitating that the device be emptied when capacity is reached during the surgical procedure. In the case of MD Technologies their system has an unlimited capacity but the process is not continuous because they have to interrupt the process to manually switch over to a new container and drain the original container in order to have it ready for use when the second container is full.

In June 2008, we completed and executed an agreement with Marshall C. Ryan, the named inventor of the Patents, to secure exclusive ownership of the Patents. In exchange for the transfer of his ownership interests in the Patents, we paid Mr. Ryan a combination of cash and warrants, agreed to pay him 4% royalty on FMS sales for the life of the Patents and agreed to make additional payments if there is a change in control of the Company (defined in the agreement as either 50% or more of the Company's outstanding stock or substantially all of its assets being transferred to one independent person or entity). At the signing of the agreement, we paid Mr. Ryan $75,000 and agreed to pay Mid-State Stainless, Inc., a corporation wholly owned by Mr. Ryan, an additional $100,000 payment on June 30, 2009 for past research and development activities. We also granted Mr. Ryan a 5-year warrant to purchase 150,000 shares of our common stock at a price of $.35 per share. The warrant expires on June 30, 2013.

Our competitive advantage, based upon the Patents, 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 or that we could afford to take such measures. 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. However, our patent attorney has recently analyzed and reviewed the Patents concluding that we maintain a strong position to defend our patents.

In 2002, two individuals, Jay D. Nord and Jeffrey K. Drogue, who are no longer affiliated with the Company, filed a provisional patent application disclosing a particular embodiment for a medical waste fluid collection system (the "Nord/Drogue Embodiment"). The Nord/Drogue Embodiment included a separation chamber and a collection chamber. A negative pressure source in communication with the separation chamber would cause liquid surgical waste to be drawn into the separation chamber. When the amount of collected liquid reached a high level sensor, a valve would open in the bottom of the separation chamber to allowing the collected liquid to flow by gravity into the collection chamber below. When the liquid flowing into the collection chamber reached a high level sensor, the valve would close. A second valve would then open allowing the known volume within the collection chamber to flow by gravity into a drain. Each time the collection chamber was emptied, the known volume of the collection chamber was added to the total collected volume.

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"). In the Ryan Embodiment, a pump was utilized to measure and discharge the collected fluid while negative pressure was maintained in the separation and collection chambers. An international (PCT) application was timely filed disclosing both the Nord/Drogue Embodiment and the Ryan Embodiment. National stage applications were subsequently timely filed in the U.S., Europe and Canada based on the PCT application. During prosecution of the U.S. and European national stage applications, the claims directed to the Nord/Drogue Embodiment were rejected as being unpatentable of the prior art. Accordingly, the claims directed to the Nord/Drogue Embodiment were canceled and the remaining claims were amended to specifically claim only the Ryan Embodiment. It was learned during prosecution of the U.S. and European applications that Mr. Ryan was inadvertently omitted as a named inventor. Appropriate documents were then filed with the European and U.S. patent offices to add Mr. Ryan as a named inventor. Additionally, pursuant to U.S. patent law, because the claims directed to the Nord/Drogue Embodiment were canceled, leaving only the Ryan Embodiment claimed, appropriate documents were filed to remove Messrs. Nord and Drogue as named inventors. The U.S. patent and the European patent were allowed after the claims were amended to relate solely to the Ryan Embodiment. The Canadian patent was issued to the Company in April 2011.

We filed a divisional application with the U.S. Patent Office with claims directed to the method of use of the Ryan Embodiment. We also filed a Continuation-In-Part (CIP) application to cover additional features and functionalities of our FMS.

We have not communicated with Mr. Nord or Mr. Drogue since notifying them that they have been removed as inventors of the then-pending patent applications. We are not aware of any current intention by Mr. Nord or Mr. Drogue to challenge ownership or inventorship of the Patents. We believe that Messrs. Nord and Drogue have no valid claims of inventorship or ownership of the Patents. Even if Mr. Nord or Mr. Drogue were to assert such a claim, we believe that, independent of our dealings with them, we obtained rights to the Patents from Mr. Ryan, who even if found not to be the sole inventor of the subject matter of the claims of the Patents, is at least a joint inventor. As a joint inventor, he would have co-ownership interest in the Patents and would have the power to transfer to us his undivided co-ownership interest in the Patents.

Our system, based on our patents, includes a cleaning kit that contains a pre-measured amount of a cleaning solution for cleaning the suction unit before a subsequent use. We have obtained an exclusive distribution agreement with a manufacturer of the fluid we use in the cleaning kit for our FMS. The distribution agreement allows use of the fluid in connection with our devices; we expect to acquire ownership of any patent rights or claims pertaining to such fluid.

The Disposable Kit

The disposable 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 bottle that attaches to the FMS. The disposal cleaning kit also includes an in-line filter with two suction ports. The proprietary cleaning solution placed in the specially designed holder 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 disposable kit is a critical component of our business model. The kit has the "razor blade business model" characteristic with an ongoing stream of revenue for every FMS unit installed, and revenues from the sale of the kits are expected to be significantly higher over time than the revenues from the sales of the unit. Our disposable, single use filter is designed specifically for use only on our FMS. The filter is used only once per procedure followed by immediate disposal. Our operation instructions and warranty require that a BioDrain filter is used for every procedure. There are no known off the shelf filters that will fit our FMS. We are currently developing a more effective and cost efficient filter, with an intent to patent. We have exclusive distribution rights to the fluid and facilitate the use of only our fluid for cleaning following procedures by incorporating a special adapter to connect the fluid to the connector on the FMS system. We will also tie the fluid usage, which we will keep track of with the FMS software, to the product warranty. While it could be possible for other manufacturers to provide fluids for utilization in this process, it would require that they manufacture an adapter compatible with our connector on the FMS, obtain a container that fit in the specially designed container holder on the FMS and perform testing to demonstrate that any other fluid would not damage the FMS. We believe that these barriers and the warranty control will allow us to achieve substantial revenue from our cleaning fluid. The instructions for use that accompanies the product will clearly state how the fluid is to be hooked up to the FMS machine. Further, a diagram on the FMS will also assist the user in attaching the fluid bottle to the machine. This will be a very simple task, and we do not anticipate that any training of operating room staff will be necessary.

All installations of our FMS product will be completed by a service and maintenance organization that is familiar with completing such installations in health care settings. We have had conversations with multiple providers and we have signed an agreement with Belimed to perform this function. The general availability of these types of service and maintenance personnel in the health care sector should not hinder us from forming a beneficial relationship in this area.

Corporate Strategy

We intend to succeed by deploying a strategy of focused expansion within our core product and market segments, while utilizing a progressive approach to manufacturing and marketing to ensure maximum flexibility and profitability.

Our strategy is to:

- *Develop a complete line of wall-mounted fluid evacuation systems 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.

- *Provide products that greatly reduce worker and patient exposure to harmful materials present in infectious fluids and that contribute to an adverse working environment.* As one of the only stand-alone surgical fluid disposal systems directly connected to the sanitary sewer, the FMS could advance the manner in which such material is collected, measured and disposed of in operating rooms, post-operating recovery, emergency rooms and intensive care settings by eliminating the need to transport a device to the patient bedside and remove it for emptying and cleaning at the end of the procedure. 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.

- *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.

Other strategy may also include:

- 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.

- Providing a leasing program and/or "pay per use" program as alternatives to purchasing.

- Providing service contracts to establish an additional revenue stream.

- Utilizing the international manufacturing experience of our management team to develop international sources of supply and manufacturing to take advantage of the lower cost of labor and materials while still obtaining excellent quality. While cost is not a major consideration in the roll-out of leading edge products, we believe that being a low-cost provider will be important long term.

- Offering an innovative warranty program that is contingent on the exclusive use of our disposable 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 disposal of that waste either via incineration or in segregated landfills.

Once the procedure has ended, the canisters currently being used in many cases, 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 glutalderhyde, 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 bio-hazardous/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:

- It does not ensure protection for healthcare workers, as there remains the potential for splash when the top of the canister is opened.

- Based on industry pricing data, the total cost per canister increases by approximately $2.00.

- 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 about 1 pound. A canister and its gelled contents weigh about 7.5 pounds.

- 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 some of the deficiencies described above. MD Technologies, Inc., DeRoyal (formerly Waterstone), Cardinal Health, Inc., Dornoch Medical Systems, Inc. and Stryker Instruments have all developed systems that provide disposal into the sanitary sewer without pouring the infectious fluids directly through a hopper disposal or using expensive gel powders. All of these newer products are currently sold with 510(k) or 510(k) exempt concurrence from the FDA. Most of these competing products incorporate an internal collection canister with finite capacity, and while not directly eliminating the need to transport a device to and from the surgical room, we believe most have been successful in eliminating the need for expensive gel and its associated handling and disposal costs.

Existing competitors, that already have products on the market, have a competitive advantage in terms of brand recognition and market exposure. In addition, the aforementioned companies have extensive marketing and development budgets that could overpower an early stage company like ours. We believe that Stryker Instruments has the dominant market share position. Cardinal Health, Inc., though having FDA concurrence, has only recently started advertising its product. We also believe competing products are used in select procedures and often in some, but not all, surgical procedures.

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. It should be noted that these canisters are manufactured by companies with substantially more resources than our Company. Cardinal Health, a very significant competitor, manufacturers both single use canisters as well as a more automated fluid handling system that will compete with us. Accordingly, faced with this significant competition, we may have difficulty penetrating this market. Our true competitive advantage, however, is our unlimited capacity, eliminating the need for any high volume cases to be interrupted for canister changeover.

Solidifying Gel Powder

The market potential for solidifying gel was estimated by industry publications 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. We are 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 the red-bag procedure is followed when using these products. One significant 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.

The FMS eliminates the need for solidifying gel, providing savings in both gel powder usage and associated landfill costs.

Sterilization and Landfill Disposal

Current disposal methods include the removal of the contaminated canisters (with or without the solidifying gel) to designated bio-hazardous/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.

In 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.

Handling Costs

Once the surgical team has finished 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.

The FMS would significantly reduce the labor 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. We will utilize the same suction tubing currently being used in the operating room, so no additional cost is incurred with our process. While each hospital handles fluid disposal differently, we believe that the cost of our cleaning fluid after each procedure will be less than the current procedural cost that could include the cost of canisters, labor to transport the canisters, solidifying powder, gloves, gowns, mops, goggles, shipping, and transportation, as well as any costs associated with spills that may occur due to manual handling.

A hidden but very real and considerable handling cost is the cost of an infectious fluid exposure. A July 2007 research article published in Infection Control Hospital Epidemiology 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.” According to the article, hospital management cost associated with occupational blood exposure can, conservatively, be more than $4,500 per exposure. 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 worse 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.

Nursing Labor

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.

The FMS would save nursing time as compared to the manual process of collecting and disposing of surgical waste. 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 and disposable filter 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. The steps that our product avoids, which are typically involved with the manual disposal process include, canister setup, interpretation of an analog read out for calculating fluid, canister management during the case (i.e. swapping out full canisters), and then temporarily storing, transferring, dumping, and properly disposing of the canisters.

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 “NeptuneTM” system, offering a combination of bio-aerosol and fluid management in a portable two-piece system; Waterstone Medical (now DeRoyal) introduced the “Aqua BoxTM” stationary system for fluid disposal; Cardinal Health introduced the Orwell Fluid Collection and Disposal System; and Dornoch Medical Systems, Inc. introduced the “Red AwayTM” stationary system for fluid collection and disposal. All companies, regardless of size, have their own accessory kits.

We differentiate from these competitors since we have the most automatic, hands-free process of any of the systems currently on the market. Each of our competitors, with the exception of MD Technologies, Inc., has some significant manual handling involved in the process. For instance, some competing products require transport of the mobile unit to a docking port and then emptying of the fluid, while others require that the canister be manually transported to a more efficient dumping station. Regardless, most of our competitors require more human interaction with the fluid than BioDrain. Please refer to the chart included in the section headed as Products for a comparison of the key features of the devices currently marketed and the FMS.

Although the mobility associated with most of the competing products adds time and labor to the process and increases the chance of worker exposure to waste fluids, it also allows the hospital to purchase only as many mobile units needed for simultaneous procedures in multiple operating rooms. With the FMS, a unit must be purchased and installed in each room where it is intended to be used.

Marketing and Sales

Distribution

We intend to sell the FMS and procedure kits through independent distributors and manufacturer's representatives covering the vast majority of major U.S. markets. Currently our Vice-President of Sales and an independent rep are demoing the FMS for prospective customers and distributors, as well as, supporting our current customer base for kit resupply. Our 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, nurses, biomedical engineering, anesthetists, imaging, anesthesiologists, human resources, legal, administration and housekeeping.

The major focus of our marketing efforts will be to introduce the FMS as a standalone device capable of effectively removing infectious waste and disposing of it automatically while providing accurate measurement of fluids removed, and also 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 by medical personnel to bloodborne pathogens. We believe that the FMS provides a convenient and cost effective way to collect and dispose of this highly contaminated material.

Our distributors may have installation and service capability, or we will contract those functions with an independent service/maintenance company. We have been in contact with both distributors and service companies regarding these installation requirements. We will establish extensive training and standards for the service and installation of the FMS to ensure consistency and dependability in the field. Users of the system will require a minimal amount of training to operate the FMS. The instructions for use and the installation guide will be included with every system along with a quick start guide and a troubleshooting manual.

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. We believe our current cost and price estimates are conservative and 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 levels 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 website. We believe our 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, use of scientific journal articles and a webpage 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 our trade show booths 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 initially on the Association of Operating Room Nurses ("AORN") meeting, where the largest concentration of potential buyers and influencers are in attendance. We will feature information on protection of the healthcare worker on our website 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 webpage or directly through postage paid cards or direct contact. Additionally, we will create a press release distribution to clinician-oriented periodicals for inclusion in their new product development columns. These periodicals will provide the reader with an overview of the FMS and will direct readers to pursue more information by direct contact with us by accessing our webpage.

Pricing

We believe prices for the FMS and its disposable procedure kit reflect a substantial cost savings to hospitals compared to their long-term procedure costs. Our pricing strategy should ensure that the customer realizes actual cost savings when using the FMS versus replacing traditional canisters, considering the actual costs of the canisters and associated costs such as biohazard processing labor and added costs of biohazard waste disposal. Suction tubing that is currently used in the operating room will continue to be used with our system and should not be considered in the return on investment equation. Our cleaning solution's bottle is completely recyclable, and the anticipated selling price of the fluid is built into our cost analysis. In contrast, an operation using traditional disposal methods will often produce multiple canisters destined for biohazard processing. Biohazard disposal costs are estimated by Outpatient Surgery Magazine to be 5 times more per pound to dispose of than regular waste (Outpatient Surgery Magazine , April 2007). Once the canister has touched blood, it is considered "red bag" biohazard waste, whereas the cleaning fluid bottle used in our system can be recycled or disposed with the rest of the facility's plastics.

The FMS lists for approximately $18,000 per system (one per operating room – installation extra) and $15 - $20 per unit retail for the proprietary disposable kit to the U.S. hospital market. By comparison, the disposal system of Stryker Instruments, one of our competitors, retails for approximately $25,000 plus an $8,000 docking station and requires a disposable component with an approximate cost of $25 per procedure and a proprietary cleaning fluid (cost unknown per procedure). Per procedure cost of the traditional disposal process includes approximate costs of $2 per liter canister, plus solidifier at $2 per liter canister, plus the biohazard premium disposal cost approximated at $1.80 per liter canister. In addition, the labor, gloves, gowns, goggles, and other related material handling costs are also disposal expenses.

Installation will be done by distributors, independent contractors, or in-house engineering at an estimated price of $1,000, depending on the operating room. Installation of the FMS requires access only to the hospital's sanitary sewer, vacuum suction, and electricity. To help facilities maintain their utilization rates, we will recommend installation during off peak hours. In smaller facilities, an outside contractor may be called in, while 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 our sterilization kit.

Engineering and Manufacturing

We are currently manufacturing the FMS in our own facility. We have the capability to manufacture, test, house, ship and receive from our warehouse. We are in the process of searching for a manufacturing company that could meet our standards and cost requirements as sales increase.

The disposable kit, including a bottle of proprietary cleaning solution and an in-line filter is sourced through National Purity (cleaning solution) and through AETAS Corporation (filter), both of whom have the potential for long term vender agreements with the Company. We are pursuing Intellectual Property protection for these disposable products as well.

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)

Application for Electrical Safety Testing and Certification

We sought testing and certification to the IEC 60606-1 and IEC 60606-1-2, two internationally recognized standards. In the U.S., there are 3 Nationally Recognized Testing Laboratories ("NRTLs"), Underwriters Laboratories ("UL"), TUV SUD America, Inc., and Intertek-Semko (ETL), that can perform such tests for electrical safety of the FMS device. We issued request for quotes to two of the three NRTLs, in addition to issuing initial inquiries to certified third party testing entities conducting testing on behalf of the NRTLs. Based on responses to our request for quotes, noting pricing and timing of conducting the testing, we have contracted with TUV SUD America, Inc. located in New Brighton, MN for this electrical safety testing. On March 11, 2009, we received completed test documentation from TUV SUD America, Inc. confirming the FMS device successfully completed and passed all testing showing compliance to IEC 60606-1 and IEC 60606-1-2.

A previous generation BioDrain FMS device (110/240VAC) successfully passed electrical safety testing conducted by UL in November 2005 (reference UL File E256928).

FDA Clearance under Section 510(k)

The FDA Center for Devices and Radiological Health requires 510(k) submitters to provide information that compares its new device to a marketed device of a similar type, in order to determine whether the device is substantially equivalent ("SE"). This means that a manufacturer can submit a 510(k) comparing a new device to a device that has been found to be SE and the FDA can use this as evidence to determine whether the new device is SE to an already legally marketed device (or a "predicate device"). The ultimate burden of demonstrating the substantial equivalence of a new device to a predicate device remains with the 510(k) submitter, and in those occasions when the Center for Devices and Radiological Health is unfamiliar with certain aspects of the predicate device, the submitter will be required to provide information that substantiates a claim of substantial equivalence.

As a matter of practice, the Center for Devices and Radiological Health generally considers a device to be SE to a predicate device if, in comparison to the predicate device, (i) the new device has the same intended use, (ii) the new device has the same technological characteristics (i.e., same materials, design, energy source), (iii) the new device has new technological characteristics that could not affect safety or effectiveness or (iv) the new device has new technological characteristics that could affect safety or effectiveness but there are accepted scientific methods for evaluating whether safety or effectiveness has been adversely affected and there is data to demonstrate that the new technological features have not diminished safety or effectiveness. Pre-market notification submissions are designed to facilitate these determinations.

The FDA requires, pursuant to a final regulation for Establishment Registration and Device Listing for Manufacturers of Devices, that a 510(k) premarket notification be submitted at least ninety days before marketing a device that: (1) is being introduced into distribution for the first time by that person or entity, or (2) is in distribution but is being significantly modified in design or use. A 510(k) submission must contain, among other things: (i) proposed labeling sufficient to describe the device's intended use; (ii) a description of how the device is similar to or different from other devices of comparable type, or information about what consequences a proposed device modification may have on the device's safety and effectiveness; and (iii) any other information necessary to determine whether the device is substantially equivalent. The FMS is 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 clearance process.

We filed the 510(k) submission for FDA clearance of the FMS device on March 14, 2009 and received written confirmation on April 1, 2009 that our 510(k) has been cleared by the FDA.

Following this 510(k) clearance by the FDA, we continue to 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.

Foreign Jurisdictions

Each country in Europe and the Pacific Rim has unique laws, regulations, and directives regarding the manufacture and or marketing of medical devices within their borders that are comparable to the laws and regulations described above. While we have not fully researched each country and the respective laws, regulations, and directives, we will do so in advance, and we recognize product design changes will most likely be necessary based on practices and procedures in the operative environment in the Pacific Rim, as well as product design changes necessitated by laws, regulations, and directives. We will be applying for a CE mark on our next generation design in 2013, which is currently in development.

Employees

We have 6 employees, five of whom are full-time and one who is part-time.

Property

Our corporate offices are located at 2915 Commers Drive, Suite 900, Eagan, Minnesota 55121. We lease about 5,300 square feet at this location. Our monthly base rent is $3,716, net, net on a month to month basis. We expect that this space will be adequate for our current office and manufacturing needs.

MANAGEMENT

Our directors and executive officers, their ages, their respective offices and positions, and their respective dates of election or appointment are as follows:

Name	Age	Position	Date of Election or Appointment
Lawrence W. Gadbaw	74	Chairman of the Board of Directors	2002
Joshua Kornberg	39	Director	March 9, 2012
		President, Chief Executive Officer	July 22, 2012
Ricardo Koenigsberger	46	Director	June 25, 2012
Peter L. Morawetz	84	Director	2002
Thomas J. McGoldrick	70	Director	2005
Andrew P. Reding	42	Director	2006
David O. Johnson	59	Chief Operating Officer	July 1, 2012
Bob Myers	57	Chief Financial Officer	July 1, 2012

Business Experience Descriptions

Set forth below is a summary of our executive officers' and directors' business experience for the past 5 years. Other than as described below, the experience and background of each of the directors, as summarized below, were significant factors in their previously being nominated as directors of the Company.

Lawrence W. Gadbaw. Mr. Gadbaw has served as a director and Chairman of the Board 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 been retired since 2008. He was 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. We believe Mr. Gadbaw's experience in the healthcare and medical device industries as well as being a co-founder of BioDrain makes him a valuable member of the Board.

Josh Kornberg . Effective July 22, 2012, Joshua Kornberg was appointed by the Board of Directors of BioDrain Medical, Inc. (the "Company") as the Chief Executive Officer and President of the Company. Mr. Kornberg was elected Interim President, Chief Executive Officer and Chief Financial Officer by the Board on April 23, 2012. Mr. Kornberg was elected to the Board on March 9, 2012. Mr. Kornberg was appointed to the Board in March 2012 at the direction of Dr. Samuel Herschkowitz, pursuant to the terms of the note purchase agreement executed with Dr. Herschkowitz in December 2011. As long as any amount payable under the note remains outstanding, Dr. Herschkowitz or his designee is entitled to appoint a special advisor to the Company's Board of Directors, who will be appointed as a member of the Board upon request. Pursuant to this authority, Josh Kornberg was appointed to the Board on March 9, 2012. Mr. Kornberg is President and founding partner of APA, a private equity fund based in New York. Prior to founding APA, Mr. Kornberg served as Chief Investment Officer of The Lightstone Group, a national private equity firm and Director of the Lightstone Value Plus REIT, a public company focused on commercial real estate. Mr. Kornberg worked in the capital markets group at Morgan Stanley, and also served as Vice President at The RREEF Funds, one of the leading global pension fund advisors.

Ricardo Koenigsberger. Effective June 25, 2012, Ricardo Koenigsberger, was elected to the Board of Directors of BioDrain Medical, Inc. (the "Company"). Mr. Koenigsberger is currently a managing partner of ROCA Management, a private investment fund focused on the REIT industry. In addition, he also serves as CEO of Realty Finance Corporation, a publicly held company. Previously, Mr. Koenigsberger was a partner of Apollo Real Estate, a large private equity firm, where he was responsible for new investments and investment management. At Apollo, he oversaw the investment of over $1+ billion in equity. Mr. Koenigsberger graduated summa cum laude from the Wharton School of the University of Pennsylvania.***Peter L. Morawetz, PhD.*** Dr. Morawetz has been a consultant to development-stage companies in the medical and high technology field and has been retired since 2005. 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. We believe that Dr. Morawetz's extensive consulting experience with development-stage companies and role as a co-founder of BioDrain are strong endorsements for membership on our Board.

Thomas J. McGoldrick. Mr. McGoldrick has served as a director of the Company since 2005. Mr. McGoldrick has been retired 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 was co-founder 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 was 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. We believe Mr. McGoldrick's experience as CEO of a public company and extensive experience in the medical device industry provide valuable insight on our Board.

Andrew P. Reding. 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 from December 1994 to May 2006, and he served as Vice President of Sales and Director of Marketing with Berchtold Corporation from May 2006 to April 2007. 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. We believe Mr. Reding's strong experience in sales and marketing of capital equipment to hospital operating rooms provides unique insight into the industry we serve and makes him a valued member of the Board.

David O. Johnson. Effective July 1, 2012, David O. Johnson was appointed as the Chief Operating Officer of BioDrain Medical, Inc. (the "Company"). Mr. Johnson, age 59, was previously the Acting Chief Operating Officer for the Company since December 2011 and had been a consultant to medical device companies since October 2010. Mr. Johnson has over 30 years' experience in executive, operations and management positions in rapid growth medical device organizations, directing growth domestically and internationally with products ranging from consumer based disposable commodity items to Class III implantable devices. His experience includes executive management, training, product development, business development, regulatory and quality assurance, operations, supplier development and technology acquisitions. From August 2007 to September 2010 Mr. Johnson was President & CEO of Spring Forest Qigong, an alternative healthcare organization. Prior to August 2007 he had been a co-founder and Vice President of Operations at Epitek, Inc. since January 2005, and prior to that time he was a co-founder and President of Timm Medical Technologies. He also held positions including Vice President-Operations/Technology at UroHealth/Imagyn, Vice-President Operations at Dacomed Corporation and various technical, operations and training positions at American Medical Systems and Pfizer Corporation. He also holds a number of patents in the medical device field and the exercise fitness industry.

Bob Myers. Effective July 1, 2012 Bob Myers was appointed as the Chief Financial Officer of the Company. Mr. Myers, age 57, was the Acting Chief Financial Officer and Corporate Secretary for the Company since December 2011. He has over 30 years' experience in multiple industries focusing on medical device, service and manufacturing and for the past ten years has been a financial contractor represented by various contracting firms in the Minneapolis area. He has spent much of his career as a Chief Financial Officer and/or Controller. Mr. Myers was a contract CFO at Disetronic Medical, contract Corporate Controller for Diametric Medical Devices and contract CFO for Cannon Equipment. Previously he held executive positions with American Express, Capitol Distributors, and International Creative Management and was a public accountant with the international firm of Laventhol & Horwath. Mr. Myers has an MBA in Finance from Adelphi University and a BBA in Public Accounting from Hofstra University .

Family Relationships

There are no family relationships among our directors and executive officers.

Audit Committee of the Board; Audit Committee Financial Expert

The Audit Committee was established by the Board in accordance with Section 3(a)(58)(A) of the Exchange Act to oversee our corporate accounting and financial reporting processes and audits of our financial statements.

The functions of the Audit Committee include, among other things:

- serving as an independent and objective party to monitor our financial reporting process and internal control system;
- coordinating, reviewing and appraising the audit efforts of our independent auditors and management and, to the extent we have an internal auditing or similar department or persons performing the functions of such department ("internal auditing department" or "internal auditors"), the internal auditing department; and
- communicating directly with the independent auditors, financial and senior management, the internal auditing department, and the Board of Directors regarding the matters related to the committee's responsibilities and duties.

Both our independent registered public accounting firm and management periodically meet privately with the Audit Committee.

Our Audit Committee currently consists of Mr. Gadbaw as the chairperson and Mr. Reding. Each Audit Committee member is a non-employee director of our Board. The Board of Directors reviews the Nasdaq listing standards definition of independence for Audit Committee members on an annual basis and has determined that all current members of our Audit Committee are independent (as independence is currently defined in Rule 5605(a)(2) of the Nasdaq listing standards). The Audit Committee met four times in fiscal 2011. The Audit Committee has met two times in fiscal 2012, to date.

Director Independence

Although we are not required to comply with the Nasdaq Stock Market listing standards, we use these listing standards as our guide toward determining independence of our directors and other areas of corporate governance. Under Nasdaq listing standards, a majority of the members of a listed company's board of directors must qualify as "independent," as affirmatively determined by the board of directors. The Board of Directors consults with our counsel to ensure that the Board of Directors' determinations are consistent with relevant securities and other laws and regulations regarding the definition of "independent," including those set forth in pertinent listing standards of the Nasdaq, as in effect from time to time.

Consistent with these considerations, after review of all relevant transactions or relationships between each director, or any of his or her family members, and the Company, its senior management, and its independent registered public accounting firm, the Board of Directors has affirmatively determined that the following directors and nominees are independent directors within the meaning of the Nasdaq listing standards: Messrs. Gadbaw, McGoldrick, Reding, Koenigsberger, Dr. Galitz and Dr. Morawetz, In making this determination, the Board of Directors found that none of these directors and nominees had a material or other disqualifying relationship with the Company. Mr. Kornberg, our President and Chief Executive Officer, is not independent by virtue of his managing partnership position with SOK Partners.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee consists of Dr. Morawetz and Mr. McGoldrick. No member of the Compensation Committee has ever been an executive officer or employee of ours. None of our officers currently serves, or has served during the last completed year, on the compensation committee or the board of directors of any other entity that has one or more officers serving as a member of the Board of Directors or the Compensation Committee.

EXECUTIVE COMPENSATION

Executive Compensation Components for Fiscal 2011

Base salary is an important element of our executive compensation program as it provides executives with a fixed, regular, non-contingent earnings stream to support annual living and other expenses. As a component of total compensation, we generally set base salaries at levels believed to attract and retain an experienced management team that will successfully grow our business and create shareholder value. We also utilize base salaries to reward individual performance and contributions to our overall business objectives, but seek to do so in a manner that does not detract from the executives' incentive to realize additional compensation through our stock options and restricted stock awards.

The Compensation Committee reviews the Chief Executive Officer's salary at least annually. The Compensation Committee may recommend adjustments to the Chief Executive Officer's base salary based upon the Compensation Committee's review of his current base salary, incentive cash compensation and equity-based compensation, as well as his performance and comparative market data. The Compensation Committee also reviews other executives' salaries throughout the year, with input from the Chief Executive Officer. The Compensation Committee may recommend adjustments to other executives' base salary based upon the Chief Executive Officer's recommendation and the reviewed executives' responsibilities, experience and performance, as well as comparative market data.

In utilizing comparative data, the Compensation Committee seeks to recommend salaries for each executive at a level that is appropriate after giving consideration to experience for the relevant position and the executive's performance. The Compensation Committee reviews performance for both our Company (based upon achievement of strategic initiatives) and each individual executive. Based upon these factors, the Compensation Committee may recommend adjustments to base salaries to better align individual compensation with comparative market compensation, to provide merit-based increases based upon individual or company achievement, or to account for changes in roles and responsibilities.

Our employment agreement, dated October 4, 2006, with Kevin R. Davidson, President and Chief Executive Officer, provided that his initial annual base salary would be $150,000 and that his base salary for subsequent years is to be determined by the Board. We offered this amount as part of a package of compensation for Mr. Davidson sufficient to induce him to join our Company. The compensation package for Mr. Davidson was designed to provide annual cash compensation, combined with the equity compensation described below, sufficient to induce him to join the Company and continue to incentivize him to create revenue growth and shareholder value. Based upon the recommendation of the Compensation Committee, the Board approved an increase to Mr. Davidson's base salary rate from $160,000 to $170,000 for calendar 2009, which remains his current salary.

Stock Option and Other Equity Awards

Consistent with our compensation philosophies related to performance-based compensation, long-term shareholder value creation and alignment of executive interests with those of shareholders, we make periodic grants of long-term compensation in the form of stock options or restricted stock to our executive officers, directors and others in the organization.

Stock options provide executive officers with the opportunity to purchase common stock at a price fixed on the grant date regardless of future market price. A stock option becomes valuable only if the common stock price increases above the option exercise price and the holder of the option remains employed during the period required for the option shares to vest. This provides an incentive for an option holder to remain employed by us. In addition, stock options link a significant portion of an employee's compensation to shareholders' interests by providing an incentive to achieve corporate goals and increase shareholder value. Under our 2008 Equity Incentive Plan (the "2008 Plan"), we may also make grants of restricted stock awards, restricted stock units, performance share awards, performance unit awards and stock appreciation rights to officers and other employees. We adopted the 2008 Plan to give us flexibility in the types of awards that we could grant to our executive officers and other employees.

Limited Perquisites; Other Benefits

We intend to provide our employees with a full complement of employee benefits, including health and dental insurance, short term and long term disability insurance, life insurance and a 401(k) plan but have currently only provided a health insurance plan due to limited funding. As our business grows we will look to implement the balance of the benefit plans that will be competitive with other companies in our industry and within our geographical area.

Potential Payments Upon Termination or Change of Control

Most of our stock option agreements provide for an acceleration of vesting in the event of a change in control as defined in the agreements. Additionally, the restricted stock agreements that were awarded to management and directors in 2009 and 2010 also provide for an acceleration of vesting in the event there is a change in control as defined in the 2008 Plan.

Under the employment agreements with Mr. Davidson and Mr. Ruwe they would have been entitled to severance pay equal to twelve months pay in the event their employment is terminated as a result of a "Change in Control," defined as a change in control of more than 40% of the Company's common stock.

See "Employment Contracts and Separation Agreements Entered Into in 2012" for a description of the provisions of employment agreements with the Company's current executive officers and separation agreements entered into with Messrs. Davidson and Ruwe.

Summary Compensation Table for Fiscal 2011 and 2010

The following table provides information regarding the compensation earned during the fiscal years ended December 31, 2011 and December 31, 2010 by each of the Named Executive Officers:

Name and Principal Position	Year	Salary	Bonus	Stock Awards	(3) Option Awards	Non-Equity Incentive Plan Compensation	Non-Qualified Deferred Compensation Earnings	Total Compensation
Kevin R. Davidson	**2011**	**$ 177,083**	**$ -**	**$**	**$ 96,885**	**$ -**	**$ -**	**$ 273,968**
Former President, CEO, CFO (1)	**2010**	**$ 170,000**	**$ -**	**$**	**$ 61,126**	**$ -**	**$ -**	**$ 231,126**
Chad A. Ruwe	**2011**	**$ 129,375**	**$ -**	**$**	**$ 94,120**	**$ -**	**$ -**	**$ 223,495**
Former COO (2)	**2010**	**$ 135,000**	**$ -**	**$ -**	**$ 40,591**	**$ -**	**$ -**	**$ 175,591**

(1) Mr. Davidson served as our President and Chief Executive Officer from 2006 through April 22, 2012 and our Chief Financial Officer from January 2009 through April 22, 2012.

(2) Mr. Ruwe served as our Chief Operating Officer from 2009 through December 7, 2011.

(3) Represents the actual compensation cost recognized during 2011 as determined pursuant to FASB ASC 718 – Stock Compensation utilizing the assumptions discussed in Note 3, "Stock Options and Warrants," in the notes to financial statements included in the Form 10-K filed on April 16, 2012

Outstanding Equity Awards at Fiscal Year-end for Fiscal 2011

The following table sets forth certain information regarding outstanding equity awards held by the Named Executive Officers as of December 31, 2011:

	Option Awards					Stock Awards	
	Grant Date	Number of Securities Underlying Options Exercisable	Number of Securities Underlying Options Unexercisable	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock that have not Vested	Market Value of Shares of Units of Stock that Have not Vested
Kevin R. Davidson (1)	6/5/2008	543,292		$ 0.01	6 /5/2018		
	6/11/2008		80,000	$ 0.35	6/11/2013		
	11/16/2010	800,000		$ 0.15	11/15/2020		
	8/1/2011	666,667		$ 0.01	7/31/2021		
Chad A. Ruwe (2)	6/16/2008	200,000	50,000	$ 0.35	6/16/2013		
	11/16/2010	700,000		$ 0.15	11/15/2020		
	6/14/2011	200,000		$ 0.01	6/13/2021		
	8/1/2011	500,000		$ 0.01	6/13/2021		

(1) Mr. Davidson left the Company, as CEO, President and CFO, April. 24, 2012; his stock options that were not vested upon his exit date are cancelled and the options that were vested upon his exit date are exercisable for twelve months thereafter.

(2) Mr. Ruwe left the Company, as COO, December 7, 2011; his stock options that were not vested upon his exit date are cancelled and the options that were vested upon his exit date are exercisable for twelve months thereafter.

Employment Contracts and Separation Agreements Entered Into in 2012

Employment Agreement With CEO . On August 13, 2012, the Company entered into an employment agreement with Joshua Kornberg, who has served as Chief Executive Officer since July 22, 2012 and who served as Interim Chief Executive Officer from April 24, 2012 to July 21, 2012. The terms of Mr. Kornberg's Employment Agreement include the following:

Term: The initial term commenced on April 24, 2012 and continues for an initial term of one year, with employment under the agreement to automatically continue for additional successive one-year periods unless either party provides at least 60 days' notice of intention not to renew the agreement.

Annualized Base Salary : Mr. Kornberg's annualized base salary will be $180,000, subject to increase.

Annual Bonus : Mr. Kornberg will be eligible to receive an annual bonus with respect to each calendar year during the term of employment at the end of which he remains employed by the Company, based on attainment of reasonable Company and/or individual performance metrics. The target annual bonus will be 150% of Mr. Kornberg's base salary; provided that the actual amount of the annual bonus for each calendar year (prorated for 2012) will be determined based on relative level of achievement of the applicable metrics and which may be in an amount greater or less than the target annual bonus but shall not be less than 50% of the target annual bonus.

Equity Incentive Grants : Mr. Kornberg will receive annual equity incentive grants (stock options, restricted stock or other stock-based awards) with respect to each calendar year ending during the term. The target aggregate grant date fair value of each annual grant will be 200% of his base salary, subject to increase. Each annual grant will vest in the amounts of 50%, 25% and 25% on the first, second and third anniversaries of the grant date, respectively. In addition, in order to induce him to accept employment, on the date of the agreement, the Company granted Mr. Kornberg 6 million shares of 10 year non-qualified stock options at an exercise price of $.08 per share of common stock, which shares were fully vested on the date of grant.

Other Benefits . Mr. Kornberg will be eligible to continue to participate in or receive benefits under all of the Company's executive benefit plans currently in effect, or substantially equivalent plans or arrangements. If he does not elect to participate in the Company's health insurance program, the Company will reimburse him for the premiums for medical and dental insurance for himself, his spouse and his eligible dependents. The Company will also provide supplemental payments to cover the cost of premiums to maintain a commercially reasonable 10-year term life insurance policy of his choosing providing a death benefit of $1 million dollars.

Compensation Upon Termination : If Mr. Kornberg's employment with the Company is terminated for any reason, the Company shall pay to him (or to his authorized representative or estate) any base salary earned through the date of termination; if the termination occurs following the end of a given calendar year, but prior to payment of the annual bonus with respect to such year, the annual bonus payable for such prior calendar year; if applicable, the pro-rata bonus for the year during which the termination occurs; unpaid expense reimbursements and, if applicable, unused accrued vacation; and any vested benefits under any applicable benefit plan.

If Mr. Kornberg's employment is terminated by the Company without cause or he terminates his employment for good reason, then the Company shall pay him his accrued benefits. In addition, subject to Mr. Kornberg signing a full and final release, the Company shall pay him an amount equal to two times the sum of his base salary and his target annual bonus, to be paid out in a cash lump sum payment within 60 days. All stock options and other stock-based awards held by Mr. Kornberg and all yet unvested portions thereof shall immediately and fully accelerate and vest and become exercisable or nonforfeitable as of the date of termination; if the annual equity grant had not been made with respect to the year in which the termination occurs, the Company will grant to him such number of shares of common stock with an aggregate fair market value on the date of termination equal to 200% of his base salary; and will provide health insurance coverage for 18 months as provided in the agreement.

"Cause" is defined to mean: continued non-compliance with lawful, reasonable and good faith written directives from the Board; material misconduct in connection with the performance of his duties, including misappropriation of funds or property of the Company (other than occasional, customary and de minimis use of Company property for personal purposes); conviction for any felony or a misdemeanor involving moral turpitude or fraud, which results or is reasonably expected to result in injury or reputational harm to the Company or his being unable to satisfactorily perform his duties to the Company; non-performance of his duties to the Company (with exceptions for illness or disability); or a material breach of his material obligations under the agreement and/or fiduciary duties owed to the Company; subject to a 30 day period after notice to cure several of the above occurrences.

In the event of a change in control, all stock options and other stock-based awards held by Mr. Kornberg and all yet unvested portions thereof shall immediately and fully accelerate and vest and become fully exercisable or nonforfeitable as of immediately prior to the closing or occurrence (as applicable) of the event constituting the change in control; and if, in connection with or within 18 months after a change in control, his employment is terminated by the Company without cause or he terminates his employment for any reason, subject to the signing of a release, the Company shall pay Mr. Kornberg a lump sum in cash in an amount equal to three times the sum of (x) his base salary and (y) his target annual bonus, to be paid out in a cash lump sum payment within 60 days. If the annual equity grant had not been made with respect to the year in which the termination occurs, the Company will grant to him such number of shares of common stock with an aggregate fair market value on the date of termination equal to 200% of his base salary; and will provide health insurance coverage for 18 months as provided in the agreement

"Good reason" is defined to mean that Mr. Kornberg has complied with following a specified process of providing notice to the Company of the occurrence of any of the following conditions and such condition continues after the specified periods: a material diminution in Mr. Kornberg's responsibilities, authority or duties (including if the Company hires a new Chief Executive Officer; a material diminution in his base salary, bonus levels or targeted equity grant; a material change in the geographic location at which he provides services to the Company (including, without limitation, requiring Mr. Kornberg to relocate to the Company's Minnesota offices or other successor Company location); or material breach of the agreement by the Company.

In the event of a change in control, all stock options and other stock-based awards held by Mr. Kornberg will fully accelerate and vest and become fully exercisable or nonforfeitable as of immediately prior to the closing or occurrence of the event constituting the change in control; and if, in connection with or within 18 months after a change in control, his employment is terminated by the Company without cause or he terminates his employment for any reason, subject to the signing of a release, the Company shall pay Mr. Kornberg a lump sum in cash in an amount equal to three times the sum of his base salary and his target annual bonus, to be paid out in a cash lump sum payment within 60 days. If the annual equity grant had not been made with respect to the year in which the termination occurs, the Company will grant to him such number of shares of common stock with an aggregate fair market value on the date of termination equal to 200% of his base salary; and will provide health insurance coverage for 18 months as provided in the agreement. "Change in control" is defined to include a merger, consolidation, statutory exchange or reorganization, a; sale, lease, exclusive license, or other disposition of all or substantially all of the consolidated assets of the Company and its subsidiaries, other than to an entity, more than (50%) of the combined voting power of the voting securities of which are owned by shareholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale; lease, license, or other disposition; any person or group (other than Dr. Sam Herschkowitz, Mr. Kornberg or their affiliates) becomes the beneficial owner of securities possessing (or convertible into or exercisable for) 30% or more of the total combined voting power of securities with respect to election of board members; or individuals who, on the date of the agreement, are incumbent directors cease for any reason to constitute at least a majority of the board; provided, that if the appointment, election (or nomination) of any new director was approved or recommended by a majority of the incumbent board, the new director will be considered as a member of the incumbent board.

Further, if it is determined that the amount of any compensation, payment or distribution by the Company to or for the benefit of Mr. Kornberg would be subject to the excise tax on parachute payments under the Internal Revenue Code of 1986, as amended (the "Code"), or any interest or penalties are incurred by Mr. Kornberg with respect to such excise tax, then he will receive additional payments as a gross-up payment to cover such payments and additional income taxes on such payments.

Non-Competition . During Mr. Kornberg's employment with the Company and for twelve months thereafter, regardless of the reason for the termination, he will not engage in a competing business, as defined in the agreement and will not solicit any person to leave employment with the Company or solicit clients or prospective clients of the Company with whom Mr. Kornberg worked, solicited, marketed, or obtained confidential information about during Mr. Kornberg's employment with the Company, regarding services or products that are competitive with any of the Company's services or products.

Employment Agreement With COO and CFO. On August 13, 2012, the Company entered into employment agreements with David O. Johnson, who has served as Chief Operating Officer since July 1, 2012, and Bob Myers, who has who has served as Chief Financial Officer since July 1, 2012 (Messrs. Johnson and Myers are referred to as the "executives"). Under the agreements the employment of each of these individuals with the Company at-will.

The annualized base salaries of Messrs. Johnson and Myers are $150,000 and $125,000, respectively. Such base salaries may be adjusted by the Company but may not be reduced except in connection with a reduction imposed on substantially all employees as part of a general reduction. The executives will also each be eligible to receive an annual incentive bonus for each calendar year at the end of which he remains employed by the Company, subject to the attainment of certain objectives. Messrs. Johnson and Myers each received ten year stock options to purchase 1 million shares of common stock at $.08 per share with each option vested immediately with respect to 700,000 shares and with the remaining 300,000 shares to vest 18 months after the date of grant.

If the Company terminates the executive's employment without cause or if the executive terminates his employment for "good reason," he shall be entitled to receive from Company severance pay in an amount equal to (a) before the first anniversary of the date of the agreement, three months of base salary, or (b) on or after the first anniversary of the date of the agreement, twelve months of base salary, in either case less applicable taxes and withholdings. In that event, he will receive a bonus payment on a pro-rata basis through the date of termination and any accrued, unused vacation pay. The severance pay, bonus payment, and other consideration are conditioned upon executive's execution of a full and final release of liability. "Cause" is defined to mean the executive engages in willful misconduct or fails to follow the reasonable and lawful instructions of the Board, if such conduct is not cured within 30 days after notice; the executive embezzles or misappropriates assets of Company or any of its subsidiaries; the executive's violation of his obligations in the agreement, if such conduct is not cured within 30 days after notice; breach of any agreement between the executive and the Company or to which Company and the executive are parties, or a breach his fiduciary duty or responsibility to the Company; commission by of fraud or other willful conduct that adversely affects the business or reputation of Company; or, Company has a reasonable belief the executive engaged in some form of harassment or other improper conduct prohibited by Company policy or the law. "Good reason" is defined as (i) a material diminution in Employee's position, duties, base salary, and responsibilities; or (ii) Company's notice to Employee that his or her position will be relocated to an office which is greater than 100 miles from Employee's prior office location. In all cases of Good Reason, Employee must have given notice to Company that an alleged Good Reason event has occurred and the circumstance must remain uncorrected by Company after the expiration of (30) days after receipt by Company of such notice.

During each executive's employment with the Company and for twelve months thereafter, regardless of the reason for the termination, he will not engage in a competing business, as defined in the agreement and will not solicit any person to leave employment with the Company or solicit clients or prospective clients of the Company with whom he worked, solicited, marketed, or obtained confidential information about during his employment with the Company, regarding services or products that are competitive with any of the Company's services or products.

Separation Agreement with Former COO . On August 11, 2012, the Company entered into a separation agreement with Chad Ruwe, the former COO of the Company. Mr. Ruwe resigned from the Company's Board of Directors on July 24, 2012 for personal reasons. Under the agreement, the Company issued to Mr. Ruwe 1,166,667 shares of Common Stock, representing a payment of $175,000.00 at a valuation of $0.15 per share. The Company also agreed to amend Mr. Ruwe's warrant dated July 2, 2008 for the purchase of 571,429 shares, at an exercise price of $.46 per share to extend the expiration date of the warrant by two years, to July 2, 2014. In addition, the Company agreed to grant to Mr. Ruwe an additional warrant to purchase 200,000 shares of Common Stock at an exercise price of $0.15 per share, with an expiration date of June 29, 2017. Further, the Company agreed to exchange Mr. Ruwe's options for 700,000 shares of common stock at a purchase price of $.15 for a warrant to purchase 700,000 shares of common stock at $.15 per share with an expiration date of June 29, 2017. Mr. Ruwe and his affiliates agreed to release the Company and affiliated parties from any claims other than a breach of the separation agreement, and the parties agreed not to disparage each other.

Separation Agreement with Former CEO. On October 11, 2012, the Company completed a separation agreement with Kevin Davidson. Under the agreement, the Company issued to Mr. Davidson warrants to purchase a total of 800,000 shares of Common Stock at an exercise price of $.10 per share, with an expiration date of August 11, 2015. Mr. Davidson and his affiliates agreed to release the Company and affiliated parties from any claims other than a breach of the separation agreement. The Company and affiliated parties agreed to release Mr. Davidson and his affiliated parties from any claims other than a breach of the separation agreement. All parties agreed not to disparage each other. Mr. Davidson agreed not to use or disclose Company confidential information. In addition, he agreed not to engage in a competing business or solicit Company personnel, clients or prospective clients to the extent specified in the agreement through April 23, 2013.

Adoption of 2012 Stock Incentive Plan. On August 13, 2012, board adopted the 2012 Stock Incentive Plan (the "Plan") and the Plan became effective. The Company intends to seek shareholder approval of the Plan in 2012 so that stock options may be granted under the Plan in the future that qualify as incentive stock options under the Internal Revenue Code. The Plan is intended to replace the 2008 Equity Incentive Plan (the "2008 Plan"). Currently, options to purchase 4,263,042 shares of Common Stock are outstanding under the 2008 Plan. A summary of the Plan is as follows:

General. The purpose of the Plan is to increase shareholder value and to advance the interests of the Company by furnishing a variety of economic incentives designed to attract, retain and motivate employees, certain key consultants and directors of the Company. The Plan is administered by the compensation committee, or if no committee is designated, the board. The compensation committee may grant incentives to employees (including officers) of the Company or its subsidiaries, members of the board, and consultants or other independent contractors who provide services to the Company or its subsidiaries, in the following forms: (a) non-statutory stock options and incentive stock options; (b) stock appreciation rights ("SARs"); (c) stock awards; (d) restricted stock; (e) restricted stock units ("RSUs"); and (f) performance awards.

Shares Subject to Plan. Subject to adjustment, the number of shares of common stock which may be issued under the Plan shall not exceed 20,000,000 shares. In addition, as of the effective date of the Plan, any shares available in the reserve of the 2008 Plan (currently 4,263,042 shares) shall be added to the Plan share reserve and be available for issuance under the Plan. If an incentive granted under the Plan or under the 2008 Plan expires or is terminated or canceled unexercised as to any shares of common stock or forfeited or reacquired by the Company pursuant to rights reserved upon issuance thereof, such forfeited and reacquired shares may again be issued under the Plan pursuant to another incentive.

Description of Incentives.

Stock Options. The compensation committee may grant non-qualified and incentive stock options to eligible employees to purchase shares of common stock from the Company. The Plan confers on the compensation committee discretion, with respect to any such stock option, to determine the term of each option, the time or times during its term when the option becomes exercisable and the number and purchase price of the shares subject to the option. However, the option price per share may not be less than the fair market value of the common stock on the grant date, and the term of each option shall not exceed ten years and one day from the grant date. With respect to stock options which are intended to qualify as "incentive stock options" (as defined in Code Section 422), the aggregate fair market value of the shares with respect to which incentive stock options are exercisable for the first time cannot exceed $100,000. All incentive stock options must be granted within ten years from the earlier of the date of the Plan's adoption by the board or approval by the Company's shareholders.

Stock Appreciation Rights. A stock appreciation right or "SAR" is a right to receive, without payment to the Company, a number of shares, cash or any combination thereof, the amount of which is equal to the aggregate amount of the appreciation in the shares of common stock as to which the SAR is exercised. The compensation committee has the discretion to determine the number of shares as to which a SAR will relate as well as the duration and exercisability of a SAR. The exercise price may not be less than the fair market value of the common stock on the grant date.

Limitation on Certain Grants. During any one fiscal year, no person shall receive Incentives under the Plan that could result in that person receiving, earning or acquiring, subject to adjustment: (a) stock options and SARs for, in the aggregate, more than 10,000,000 shares of Common Stock; or (b) performance awards, in the aggregate, for more than 10,000,000 shares of Common Stock or, if payable in cash, with a maximum amount payable exceeding $2,000,000.

Stock Awards. Stock awards consist of the transfer by the Company to an eligible participant of shares of common stock, with or without other payment, as additional compensation for services to the Company. The number of shares transferred pursuant to any stock award is determined by the compensation committee.

Restricted Stock . Restricted stock consists of the sale or transfer by the Company to an eligible participant of one or more shares of common stock that are subject to restrictions on their sale or other transfer by the employee which restrictions will lapse after a period of time as determined by the compensation committee. If restricted stock is sold to a participant, the sale price will be determined by the compensation committee, and the price may vary from time to time and among participants and may be less than the fair market value of the shares at the date of sale. Subject to these restrictions and the other requirements of the Plan, a participant receiving restricted stock shall have all of the rights of a shareholder as to those shares.

RSUs. Restricted stock units represent the right to receive one share of common stock at a future date that has been granted subject to terms and conditions, including a risk of forfeiture, established by the compensation committee. Dividend equivalents may be granted with respect to any amount of RSU's and either paid at the dividend payment date in cash or in shares of unrestricted stock having a fair market value equal to the amount of such dividends, or deferred with respect to such RSU's and the amount or value thereof automatically deemed reinvested in additional RSU's until the time for delivery of shares pursuant to the terms of the restricted stock unit award. RSU's may be satisfied by delivery of shares of stock, cash equal to the fair market value of the specified number of shares covered by the RSU's, or a combination thereof, as determined by the compensation committee at the date of grant or thereafter.

Performance Awards . A performance award is a right to either a number of shares of common stock, their cash equivalent, or a combination thereof, based on satisfaction of performance goals for a particular period. At or about the same time that performance goals are established for a specific period, the compensation committee shall in its absolute discretion establish the percentage of the performance awards granted for such performance period which shall be earned by the participant for various levels of performance measured in relation to achievement of performance goals for such performance period.

Performance goals applicable to a performance award will be established by the compensation committee not more than 90 days after the beginning of the relevant performance period. The performance goals for performance awards that are intended to qualify as "performance based" compensation within the meaning of Section 162(m) of the Code must be based on one or more of the business criteria specified in the Plan, including earnings per share, operating income or profit, net income, gross or net sales, or other specified criteria. The compensation committee may modify the performance goals if it determines that circumstances have changed and modification is required to reflect the original intent of the performance goals; provided, however, that no such change or modification may be made to the extent it increases the amount of compensation payable to any participant who is a "covered employee" within the meaning of Code Section 162(m).

The compensation committee will determine the terms and conditions applicable to any performance award, which may include restrictions on the delivery of common stock payable in connection with the performance award, the requirement that the stock be delivered in the form of restricted stock, or other restrictions that could result in the future forfeiture of all or part of any stock earned. The compensation committee will, as soon as practicable after the close of a performance period, determine the extent to which the performance goals for such performance period have been achieved; and the percentage of the performance awards earned as a result. Performance awards will not be earned for any participant who is not employed by the Company or a subsidiary continuously during the entire performance period for which such performance award was granted, except in certain events such as death, disability or retirement.

Transferability of Incentives. Incentives granted under the Plan may not be transferred, pledged or assigned by the holder thereof except, in the event of the holder's death, by will or the laws of descent and distribution or pursuant to a qualified domestic relations order. However, non-qualified stock options may be transferred by the holder thereof to certain family members or related entities.

Duration, Termination and Amendment of the Incentive Plan and Incentives . The Plan will remain in effect until all Incentives granted under the Plan have been satisfied or terminated and all restrictions on shares issued under the Plan have lapsed. No Incentives may be granted under the Plan after August 13, 2022, the tenth anniversary of the approval of the Plan by the Board of Directors. The Board of Directors may amend or discontinue the Plan at any time. However, no such amendment or discontinuance may adversely change or impair a previously granted incentive without the consent of the recipient thereof. Certain Plan amendments require shareholder approval, including amendments which would increase the maximum number of shares of common stock which may be issued to all participants under the Plan, change the class of persons eligible to receive Incentives under the Plan, or materially increase the benefits accruing to participants under the Plan. Generally, the terms of an existing incentive may be amended by agreement between the compensation committee and the participant. However, in the case of a stock option or SAR, no such amendment shall (a) without shareholder approval, lower the exercise price of a previously granted stock option or SAR when the exercise price per share exceeds the fair market value of the underlying shares in exchange for another incentive or cash or take any other action with respect to a stock option that may be treated as a re-pricing under the federal securities laws or generally accepted accounting principles, or (b) extend the term of the incentive, with certain exceptions.

Change in Control; Effect of Sale, Merger, Exchange or Liquidation . Upon the occurrence of an event satisfying the definition of "change in control" with respect to a particular incentive, unless otherwise provided in the agreement for the incentive, such incentive shall become vested and all restrictions shall lapse. The compensation committee may, in its discretion, include such further provisions and limitations in any agreement for an incentive as it may deem desirable. The definition of "change in control" is similar to that in Mr. Kornberg's employment agreement. Unless otherwise provided in the agreement for an incentive, in the event of an acquisition of the Company through the sale of substantially all of the Company's assets or through a merger, exchange, reorganization or liquidation of the Company or a similar event, the compensation committee has broad discretion to take any and all action it deems equitable under the circumstances, including but not limited to terminating the Plan and all incentives and issuing to the holders of outstanding vested options and SARs the stock, securities or assets they would have received if the incentives had been exercised immediately before the transaction, or other specified actions.

Director Compensation Table for Fiscal 2011

The following table summarizes the compensation paid to each non-employee director in the fiscal year ended December 31, 2011.

Name	Fees Paid or Earned in Cash	Stock Awards	Option Awards	Total
Lawrence W. Gadbaw (1)	$ 24,000			$ 24,000
Joshua Kornberg	$ -			$ -
Kevin Davidson	$ -			$ -
Chad Ruwe	$ -			$ -
Peter Morawetz	$ -			$ -
Thomas McGoldrick	$ -			$ -
Jeffrey Galitz	$ -			$ -
Andrew Reding	$ -			$ -

-1 Mr. Gadbaw received $2,000 per month as compensation for serving as Chairman of the Board.

Equity Compensation Plan Information

The following table presents the equity compensation plan information as of December 31, 2011:

	Number of securities to be issued upon exercise of outstanding restricted stock, warrants and options (a)	**Weighted-average exercise price of outstanding options, warrants (b)**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)**
Equity compensation plans approved by security holders (1)	916,017	$ 0.367	59,388
Equity compensation plans not approved by security holders (2)	4,347,841	$ 0.226	-
TOTAL	5,263,858	$ 0.251	59,388

(1) Includes 797,810 shares of restricted stock and 18,207 warrant shares issued under the 2008 Equity Incentive Plan.
(2) The Company issued stock options to purchase 1,291,174 shares to employees and directors prior to the adoption of the 2008 Equity Incentive Plan and stock options to purchase 3,056,667 shares outside of the 2008 Equity Incentive Plan after the Plan was adopted.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The Company entered into agreements, in 2008, with our Chairman of the Board, Lawrence Gadbaw, and in 2009 with a board member, Peter Morawetz, to pay Mr. Gadbaw $25,000 and Mr. Morawetz $30,000 upon the Company raising $3 million in new equity. Mr. Gadbaw received 277,778 shares at $.09 per share in June 2012 as compensation in lieu of the $25,000 cash for raising $3 million in new equity. Mr. Gadbaw was paid the balance due under his separation agreement from 2008. This amount was $46,000 upon signing the agreement in 2008 payable at $2,000 per month; the payments to Mr. Gadbaw are complete. Mr. Gadbaw is due $6,000 in accounts payable as of June 30, 2012 pertaining to his monthly fee as Chairman of the Board of Directors. Mr. Gadbaw also received a warrant for 30,000 shares at $.15 per share in June 30, 2012 as compensation for service as Chairman.

On March 28, 2012, the Company, entered into a Convertible Note Purchase Agreement, dated as of March 28, 2012 (the "SOK Purchase Agreement") with SOK Partners, LLC ("SOK Partners"), an investment partnership. Josh Kornberg, who is a member of the Company's Board of Directors, and Dr. Samuel Herschkowitz are affiliates of the manager of SOK Partners and Ricardo Koenigsberger, a director, is a holder of membership units of SOK Partners. Pursuant to the SOK Purchase Agreement, the Company issued a 20.0% convertible note due August 2012 in the principal amount of up to $600,000. Principal and accrued interest on the note is due and payable on August 28, 2012. The Company's obligations under the note are secured by the grant of a security interest in substantially all tangible and intangible assets of the Company. The SOK Purchase Agreement and the note include customary events of default that include, among other things, non-payment defaults, covenant defaults, inaccuracy of representations and warranties, cross-defaults to other indebtedness and bankruptcy and insolvency defaults. The occurrence of an event of default could result in the acceleration of the Company's obligations under the note, and interest rate of twenty-four (24%) percent per annum accrues if the note is not paid when due. The balances of the Samuel Herschkowitz and SOK Partners notes are $240,000 and $357,282, respectively, as of the month ended June 30, 2012.

On March 28, 2012, the Company received an advance of $84,657 under the note, including a cash advance of $60,000 net of a prepayment of interest on the first $300,000 in advances under the note. The holder of the note is entitled to convert the note into shares of common stock of the Company at an initial conversion price per share of $0.065 per share, subject to adjustment in the event of (1) certain issuances of common stock or convertible securities at a price lower than the conversion price of the note, and (2) recapitalizations, stock splits, reorganizations and similar events. In addition, the Company is required to issue two installments of an equity bonus to SOK Partners in the form of common stock valued at the rate of $0.065 per share. In March 2012, the Company issued the first equity bonus to SOK Partners, consisting of 4,615,385 shares of common stock, with a second installment due within five business days after SOK Partners has made aggregate advances under the note of at least $300,000. In May 2012 the Company issued the second installment consisting of 4,615,385 shares of common stock subsequent to SOK Partners surpassing the aggregate advances of $300,000. Until the maturity date of the note, if the Company obtains financing from any other source without the consent of SOK Partners, then the Company is required to issue additional bonus equity in an amount equal to $600,000 less the aggregate advances on the note made prior to the breach.

As long as any amount payable under the note remains outstanding, SOK Partners or its designee is entitled to appoint a new member to the Company's Board of Directors, who will be appointed upon request. Mr. Koenigsberger was appointed to the Board by SOK Partners on June 25, 2012.

On March 28, 2012, the Company signed an Amended and Restated Note Purchase Agreement, dated as of December 20, 2011, with Dr. Samuel Herschkowitz (as amended, the "Herschkowitz Purchase Agreement"). Pursuant to the Herschkowitz Purchase Agreement, the Company issued a 20.0% convertible note due June 20, 2012 in the principal amount of $240,000 for previous advances under the note. The Company's obligations under the note are secured by the grant of a security interest in substantially all tangible and intangible assets of the Company. The Company has previously issued to Dr. Herschkowitz an equity bonus consisting of 1,546,667 shares of common stock. Further, on December 22, 2011 in agreement with Dr. Herschkowitz, the Company had issued 7,500,000 shares for him to hold should the Company default on his original Note Purchase Agreement. Due to the occurrence of an "event of default" under Dr. Herschkowitz's convertible promissory note, on April 24, 2012, and in accord with the forbearance and settlement agreement described below, we conceded the 7,500,000 shares to Dr. Herschkowitz as penalty shares pursuant to his Note Purchase Agreement with the Company. Effective August 15, 2012 the Company entered into a settlement and forbearance agreement relating to the defaults under the note and other matters. Among other things, the Company issued 26.5 million shares of common stock to Dr. Herschkowitz and SOK Partners and adjusted the conversion price of the notes held by such parties, in exchange for forbearance from Dr. Herschkowitz asserting his rights as a secured creditor, an extension of the due dates of the notes and other consideration. See "Letter Agreement With Investors Regarding Forbearance and Dilution Protection" below.

As long as any amount payable under the note remains outstanding, Dr. Herschkowitz or his designee is entitled to appoint a special advisor to the Company's Board of Directors, who will be appointed as a member of the Board upon request. Pursuant to this authority, Josh Kornberg was appointed to the Board on March 9, 2012. Mr. Kornberg was appointed the Interim CEO, President and CFO on April 24, 2012. On July 22, 2012 Mr. Kornberg was approved by the Board of Directors as the Company's CEO/President.

Letter Agreement With Investors Regarding Forbearance and Dilution Protection.

Effective August 15, 2012, the Company entered into a letter agreement with Dr. Samuel Herschkowitz, his affiliate, Atlantic Partners Alliance ("APA"), and SOK Partners, LLC ("SOK"), an investment partnership. Dr. Herschkowitz and Joshua Kornberg, the Chief Executive Officer of the Company, are managers of APA and SOK Partners. Under the letter agreement, among other things, (i) Dr. Herschkowitz agreed to forbear from asserting his rights as a secured creditor to substantially all of the Company's assets, resulting from the Company's defaults; (ii) the Company agreed to issue shares of common stock to Dr. Herschkowitz and SOK and adjust the conversion price of their convertible notes to satisfy the Company's obligations to adjust for dilution; (iii) Dr. Herschkowitz and SOK agreed to extend the maturity of their notes; (iv) The Company agreed to pay certain compensation to Dr. Herschkowitz upon the achievement of financial milestones and (v) Dr. Herschkowitz clarified and waived certain of his rights, including the right to interest at a penalty rate upon default.

Background . Dr. Herschkowitz and the Company entered into a Note Purchase Agreement dated as of December 20, 2011 and subsequently amended and restated effective as of the same date (as amended, the "Herschkowitz Note Purchase Agreement") pursuant to which the Company issued and sold to Dr. Herschkowitz a convertible promissory note in the original principal amount of $225,000 (as amended concurrently with the Herschkowitz Note Purchase Agreement, the "Herschkowitz Note"). As security for the Herschkowitz Note, Dr. Herschkowitz holds a first security interest in substantially all of the assets of the Company. Further, SOK entered into a Note Purchase Agreement dated as of March 28, 2012 (the "SOK Note Purchase Agreement") pursuant to which the Company issued and sold to SOK a 20.0% convertible note due August 2012 in the principal amount of up to $600,000 (the "SOK Note"). The Company's obligations under the note are secured by the grant of a security interest in substantially all tangible and intangible assets of the Company. Terms of these note purchase agreements and notes are described under "Note 9 – Related Party" in the Notes to Condensed Financial Statements.

Dilution Protection. The Company and APA were parties to a letter agreement dated March 14, 2012, providing APA and its affiliates (including Dr. Herschkowitz and SOK) with rights to avoid dilution relating to additional issuances of equity securities by the Company through July 14, 2012, evidencing the parties' intent that APA would be provided with significant protection against dilution. This protection was in recognition of APA's investments in the Company involving a high degree of risk and the Company's contemplated need for restructuring its indebtedness, which were anticipated to result, and have resulted, in significant dilution. The parties acknowledged that Dr. Herschkowitz and SOK would not have made their historical cash investments in the Company to the same degree had the dilution protection not been provided, and the investments by these parties have enabled the Company to avoid insolvency. Since the respective dates of the Herschkowitz Note Purchase Agreement and the SOK Note Purchase Agreement, the Company has issued in excess of 16,000,000 shares of common stock to parties other than APA and its affiliates, resulting in significant dilution.

Default Notice . Pursuant to a letter dated April 20, 2012 and as disclosed in the Form 10-Q for the quarter ended March 31, 2012, Dr. Herschkowitz advised the Company of the occurrence of numerous events of default under the terms of the Herschkowitz Note and the Herschkowitz Note Purchase Agreement. As a result of such events of default, Dr. Herschkowitz asserted significant rights as a secured creditor of the Company, including his rights as a secured creditor with a security interest in substantially all assets of the Company. Without a settlement relating to the defaults and other matters, Dr. Herschkowitz could have taken action to levy upon the Company's assets, including patents and other intellectual property.

Terms of Letter Agreement Relating to Settlement.

Forbearance. In the letter agreement, Dr. Herschkowitz agrees to forbear from exercising any of his rights arising under the Herschkowitz Note or the Herschkowitz Note Purchase Agreement with respect to the existing defaults against the Company, subject to the limitations set forth in the letter agreement and without releasing or waiving any future breach of the letter agreement. He further agrees to forbear from exercising any rights with respect to events of default, security interests in the collateral and other similar remedies against the Company or his interests under the Herschkowitz Note or the Herschkowitz Note Purchase Agreement until the occurrence of an event of default in the Herschkowitz Note: (a) that does not constitute an existing default and (b) occurs and accrues after the effective date of the letter agreement.

Penalty Shares; No Penalty Interest. Dr. Herschkowitz and the Company acknowledge that 7.5 million shares of the Company's common stock, constituting the "penalty shares" under the Herschkowitz Note Purchase Agreement, were delivered to Dr. Herschkowitz in April 2012 as provided in the Herschkowitz Note Purchase Agreement upon an event of default. Notwithstanding a provision that would have increased the rate of interest from 20% to 24% upon an event of default, Dr. Herschkowitz agreed that the Company would not pay the increased rate of interest but would accrue interest at 20% until a subsequent event of default.

Extension of Due Dates and Other Amendments to Notes. The Herschkowitz Note and the SOK Note were amended as follows: (i) the due dates of the notes are extended to December 31, 2012, from the previous due dates of June 20, 2012 and August 28, 2012, respectively; (ii) Dr. Herschkowitz will release his security agreement after payment of all currently outstanding promissory notes to parties other than SOK; and (iii) the Herschkowitz Note was amended to add certain events of default relating to judgments against the Company or other creditors taking action with respect to the collateral.

Adjustment for Dilution. APA and its affiliates agreed to terminate the letter agreement regarding dilution dated March 14, 2012. In consideration of the various provisions of the letter agreement and in recognition of the understanding of the parties regarding dilution and the agreements of APA and its affiliates to forebear and to extend the due dates of the notes, the Company (i) issued 13,250,000 shares to Dr. Herschkowitz, (ii) issued 13,250,000 shares to SOK, and (iii) the conversion price of the Herschkowitz Note and the SOK Note were changed to $0.014 per share from $0.065 per share. Based on the principal balance and accrued interest through June 30, 2012 as a result of the adjusted conversion price, the Herschkowitz Note and the SOK Note in the aggregate were convertible into approximately 42.7 million shares of common stock.

Milestone Fees . In the event that the Company consummates the following series of transactions on or prior to June 30, 2013: (i) a merger or similar transaction with a public shell company, (ii) raising between $2 million and $4 million through an offering of the securities of the public shell company concurrent with or subsequent to the shell merger and (iii) listing the Company's shares on NASDAQ pursuant to an underwritten offering of the Company's securities resulting in gross proceeds of between $5 million and $30 million then the Company shall deliver to Dr. Herschkowitz the following compensation: (A) $75,000 upon consummating the shell merger, (B) $150,000 upon consummating the qualifying financing round and (C) 3% of the gross proceeds of the NASDAQ underwriting, which payment shall under no circumstances be less than $200,000 or greater than $1,000,000. The Company shall reimburse Dr. Herschkowitz at his actual out-of-pocket cost for reasonable expenses incurred in connection with the shell transactions but in no event in an amount greater than $10,000.

Share Ownership and Control. As a result of the transactions under the letter agreement, Dr. Herschkowitz, SOK and their affiliates currently own 45,040,769 outstanding shares of common stock and hold derivative securities representing an additional 42,663,000 shares of common stock. Their beneficial ownership currently represents 68% of the Company's outstanding common stock, giving such parties significant control over election of the Board of Directors and other matters.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of October 3, 2012 certain information regarding beneficial ownership of our common stock by:

- Each person known to us to beneficially own 5% or more of our common stock;
- Each executive officer who in this proxy statement are collectively referred to as the "Named Executive Officers;"
- Each of our directors; and
- All of our executive officers (as that term is defined under the rules and regulations of the SEC) and directors as a group.

We have determined beneficial ownership in accordance with Rule 13d-3 under the Exchange Act. Beneficial ownership generally means having sole or shared voting or investment power with respect to securities. Unless otherwise indicated in the footnotes to the table, each shareholder named in the table has sole voting and investment power with respect to the shares of common stock set forth opposite the shareholder's name. We have based our calculation of the percentage of beneficial ownership on 98,603,584 shares of the Company's common stock outstanding on September 20, 2012. Unless otherwise noted below, the address for each person or entity listed in the table is c/o BioDrain Medical, Inc., 2915 Commers Drive, Suite 900, Eagan, Minnesota 55121.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Lawrence W. Gadbaw (2)	721,941	0.7%
Ricardo Koenigsberger	0	0.0%
Peter L. Morawetz (3)	361,245	0.4%
Thomas J. McGoldrick	118,506	0.1%
Andrew P. Reding (4)	104,491	0.11%
Josh Kornberg (5)	55,879,695	44.8%
Bob Myers (6)	700,000	0.7%
David Johnson (7)	700,000	0.7%
Dr. Samuel Herschkowitz (8)	91,563,106	63.6%
SOK Partners, LLC (9)	49,579,695	39.8%
Group consisting of: Atlantic Partners Alliance SOK Partners, LLC Dr. Samuel Herschkowitz Josh Kornberg (10)	97,863,106	67.9%
Kevin R. Davidson (11)	2,077,714	2.1%
Chad A. Ruwe (12)	4,211,631	4.3%
Ron Levine (13)	10,815,192	11.1%
James Dauwalter (14)	4,661,553	4.8%
All directors and executive officers as a group (8 persons)	58,585,878	60.0%

(1) Under Rule 13d-3, a beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares: (i) voting power, which includes the power to vote, or to direct the voting of shares; and (ii) investment power, which includes the power to dispose or direct the disposition of shares. Certain shares may be deemed to be beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed to be beneficially owned by a person if the person has the right to acquire the shares (for example, upon exercise of an option) within 60 days of the date as of which the information is provided. Therefore, options that are not exercisable within 60 days are not reflected in this table. In computing the percentage ownership of any person, the amount of shares outstanding is deemed to include the amount of shares beneficially owned by such person (and only such person) by reason of these acquisition rights. As a result, the percentage of outstanding shares of any person as shown in this table does not necessarily reflect the person's actual ownership or voting power with respect to the number of shares of common stock actually outstanding.

(2) Includes (i) options to purchase 30,000 shares of common stock at a price of $.50 per share (ii) options to purchase 85,000 shares at $.15 per share (iii) options to purchase 160,000 shares of common stock at a price of $.35 per share and (iv) a warrant to purchase 30,000 shares of common stock at a price of $.15 per share.

(3) Includes options to acquire 75,000 shares of common stock at $.35 per share.

(4) Includes options to acquire 5,985 shares of common stock granted pursuant to a director stock option agreement by and between Mr. Reding and the Company.

(5) Includes (i) currently exercisable options to acquire 6,000,000 shares of common stock at $.08 per share (ii) shared voting power as a managing partner in SOK Partners, for 22,480,770 shares of common stock and (iii) 27,098,925 derivative shares of common stock underlying the convertible note to SOK Partners.

(6) Includes options to purchase 700,000 shares of common stock at $.08 per share.

(7) Includes options to purchase 700,000 shares of common stock at $.08 per share.

(8) Includes (i) shared voting power as a managing partner in SOK Partners, for 22,480,770 shares of common stock (ii) 27,098,925 derivative shares of common stock underlying the convertible note to SOK Partners and (iii) 19,381,412 derivative shares of common stock underlying the convertible note to Dr. Herschkowitz.

(9) Includes 27,098,925 derivative shares of common stock underlying the convertible note to SOK Partners.

(10) Includes 46,480,337 derivative shares of common stock underlying the convertible notes to SOK Partners and Dr. Herschkowitz.

(11) Includes (i) options to purchase 80,000 shares of common stock at $.35 per share (ii) options to purchase 543,292 shares of common stock at $.01 per share (iii) options to purchase 800,000 shares of common stock at $.15 per share and (iv) options to purchase 320,988 shares at $.01 per share.

(12) Includes (i) a warrant to purchase 571,429 shares of common stock at $.46 per share (ii) a warrant to purchase 700,000 shares of common stock at $.15 per share (iii) a warrant to purchase 200,000 shares of common stock at $.15 per share and (iv) options to purchase 250,000 shares of common stock at $.35 per share.

(13) Includes 1,666,667 shares of common stock registered to the Ron Levine IRA, 344,476 shares of common stock registered to Bellejule Partners, LP, 1,666,667 shares of common stock registered to the Carole Levine IRA, and 607,143 shares of common stock registered to Caron Partners, LP. This number also includes 1,666,667 shares of common stock underlying warrants registered to the Ron Levine IRA, 71,429 shares of common stock underlying warrants registered to Bellejule Partners, LP, and 2,612,143 shares of common stock underlying warrants registered to Caron Partners. Ron Levine is the beneficial owner of and natural person with voting and dispositive power over, these securities. Beth Levine is the general partner of Caron Partners, LP, and, in such capacity, may also be deemed to have voting and dispositive power over the securities registered to Caron Partners, LP. Carole Levine may also be deemed to have voting and dispositive power over the securities registered to the Carole Levine IRA.

(14) Includes (i) a warrant to purchase 595,239 shares of common stock at $.20 per share and (ii) a warrant to purchase 833,333 shares of common stock at $.075 per share.

DESCRIPTION OF SECURITIES

The following information describes our capital stock and provisions of our articles of incorporation and our bylaws. This description is only a summary. You should also refer to our articles of incorporation and bylaws, each as amended, that have been incorporated by reference or filed with the SEC as exhibits to the registration statement on Form S-1 of which this prospectus forms a part.

General

We are authorized to issue 200 million shares of capital stock, of which there is only one class of shares designated as common stock.

Common Stock

The securities being offered by the selling stockholders are shares of our common stock. As of October 15, 2012, we had 98,903,584 shares of common stock issued and outstanding and held by 167 shareholders of record.

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. Our 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 Debt

As of June 20, 2012 there were outstanding warrants to purchase 27,752,439 shares of our common stock and outstanding and vested options to purchase 3,956,253 shares of our common stock. We issued a convertible debenture to Andcor Companies, Inc. with principal of $10,000 and interest at 10.25% that matured on March 31, 2012 that is expected to convert to 341,785 shares of common stock at $.07 per share.

As of December 31, 2011, there were outstanding warrants to purchase 26,882,251 shares of our common stock and outstanding and vested options to purchase 5,797,611 shares of our common stock. We issued a convertible debenture to Andcor Companies, Inc. with principal of $10,000 and interest at 10.25% that matured on March 31, 2012, which debenture is convertible at $0.35 per share.

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 our note purchase agreements with Dr. Herschkowitz and SOK, we are obligated to register the following shares of common stock to permit the offer and resale from time to time of such securities: (i) 1,600,000 shares issued to Dr. Herschkowitz as an "Equity Bonus"; (ii) 209,999 shares issued to Dr. Herschkowitz as a fee for attending Company Board meetings during the life of a promissory note issued to Dr. Herschkowitz in December 2012; (iii) the 17,142,857 shares issuable upon conversion of Dr. Herschkowitz' s note (plus additional shares representing interest on the note after the date hereof); (iv) 7,500,000 shares issued to Dr. Herschkowitz upon the occurrence of an event of default on the note; and (v) 13,250,000 shares issued as an antidilution adjustment under the Forbearance and Settlement Agreement among the Company, Dr. Herschkowitz and SOK dated August 15, 2012 (the "Forbearance Agreement").

Under the Note Purchase Agreement we entered into with SOK on March 28, 2012, we are obligated to register the following securities to permit the offer and resale from time to time of such securities: (i) 9,230,770 shares issued to SOK as an “Equity Bonus”; (ii) the 25,520,143 shares issuable upon conversion of SOK’s note (plus additional shares representing interest on the note after the date hereof); and (v) 13,250,000 shares issued as an antidilution adjustment under the Forbearance Agreement.

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. These provisions, however, 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.

PLAN OF DISTRIBUTION

We are registering shares of our common stock pursuant to the terms of: (i) a Note Purchase Agreement we entered into on March 28, 2012 with one of the selling stockholders, SOK Partners, LLC ("SOK"), and (ii) an Amended and Restated Note Purchase Agreement we entered into on December 20, 2011 with the other selling stockholder, Dr. Samuel Herschkowitz, to permit the resale of these securities by SOK and Dr. Herschkowitz, respectively, from time to time after the date of this prospectus. We will not receive any of the proceeds from these sales by the selling stockholders. We will bear all fees and expenses incident to our obligation to register these securities. Pursuant to the terms of the convertible promissory notes executed under the above note purchase agreements, each of Dr. Herschkowitz and SOK are entitled to shares of our common stock upon conversion of the notes in addition to certain bonus and penalty shares due thereunder and pursuant to the terms of a Forbearance and Settlement Agreement dated August 15, 2012 among the Company, Dr. Herschkowitz and SOK (the "Forbearance Agreement"). The following chart sets forth the source of the shares we are registering:

Dr. Herschkowitz :

- $240,000 is due and payable under Dr. Herschkowitz's convertible promissory note as of the date of this prospectus including principal but not interest. Pursuant to the terms of the convertible promissory note and an antidilution adjustment pursuant to the Forbearance Agreement, this amount converts into shares of our common stock at a conversion price per share equal to $.014. Upon conversion of his note, we would issue Dr. Herschkowitz 17,142,857 shares, plus shares for interest earned at that time.

- On December 22, 2011 we issued to Dr. Herschkowitz an equity bonus of 1,500,000 shares plus 46,667 shares in compensation for his service as a consultant to our Board pursuant to his Note Purchase Agreement with the Company.

- On December 22, 2011 in agreement with Dr. Herschkowitz the Company issued 7,500,000 shares for him to hold should the Company default on the Note Purchase Agreement. Due to the occurrence of an "event of default" under Dr. Herschkowitz's convertible promissory note, on April 24, 2012, and in accord with the August 15, 2012 Forbearance and Settlement Agreement, we conceded the 7,500,000 shares to Dr. Herschkowitz as penalty shares pursuant to his Note Purchase Agreement with the Company.

- On April 12, 2012 we issued to Dr. Herschkowitz and equity bonus of 100,000 shares plus 163,332 shares as compensation for his service as a consultant to our Board pursuant to his Note Purchase Agreement with the Company.

- On August 21, 2012, we issued to Dr. Herschkowitz 13,250,000 shares in an additional settlement pursuant to the Forbearance Agreement.

- The total number of shares of our common stock issued or issuable to Dr. Herschkowitz per the above arrangements is 39,702,856.

SOK :

- $357,282 is due and payable under the SOK convertible promissory note as of the date of this prospectus including principal but not interest. Pursuant to the terms of the convertible promissory note and an antidilution adjustment pursuant to the Forbearance Agreement, this amount converts into shares of our common stock at a conversion price per share equal to $.014. Upon conversion of the SOK note, we would issue to SOK 25,520,143 shares, plus shares for interest earned at that time.

- On March 28, 2012, and May 17, 2012, we issued two installments of an equity bonus to SOK pursuant to its Note Purchase Agreement with the Company in the form of shares valued at $.065/share, each installment for 4,615,385 shares for a total of 9,230,770 shares.

- On August 21, 2012, we issued to SOK 13,250,000 shares in an antidilution settlement pursuant to the Forbearance Agreement.

- The total number of shares of our common stock issued or issuable to Dr. Herschkowitz per the above arrangements is 48,000,913.

Aggregating the shares issued to Dr. Herschkowitz and SOK, the total number of shares of our common stock we are registering is 87,703,769.

The selling stockholders and any of their pledgees, donees, transferees, assignees, and successors-in-interest may, from time to time, sell any or all of their securities on any stock exchange, market, or trading facility on which the securities are traded or quoted or in private transactions. These sales may be at fixed or negotiated prices. The selling stockholders may use any one or more of the following methods when selling securities:

- 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;
- to cover short sales made after the date that this Registration Statement is declared effective by the SEC;
- broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

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

Broker-dealers engaged by the selling stockholders may arrange for other broker-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

The selling stockholders may from time to time pledge or grant a security interest in some or all of the shares owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell shares of common stock from time to time under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of selling stockholders to include the pledgee, transferee, or other successors in interest as selling stockholders under this prospectus.

When we are notified in writing by selling stockholders that any material arrangement has been entered into with a broker-dealer for the sale of common stock through a block trade, special offering, exchange distribution, or secondary distribution or a purchase by a broker or dealer, a supplement to this prospectus will be filed, if required, pursuant to Rule 424(b) under the Securities Act, disclosing (i) the name of each such selling stockholder and of the participating broker-dealer(s), (ii) the number of shares involved, (iii) the price at which such the shares of common stock were sold, (iv) the commissions paid or discounts or concessions allowed to such broker-dealer(s), where applicable, (v) that such broker-dealer(s) did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus, and (vi) other facts material to the transaction. In addition, when we are notified in writing by a selling stockholder that a donee or pledgee intends to sell more than 500 shares of common stock, a supplement to this prospectus will be filed if then required in accordance with applicable securities law.

The selling stockholders also may transfer the shares of common stock in other circumstances, in which case the transferees, pledges, or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling stockholders 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. Discounts, concessions, commissions, and similar selling expenses, if any, that can be attributed to the sale of securities will be paid by the selling stockholders and/or the purchasers. Each selling stockholder has represented and warranted to us that it acquired the securities subject to this prospectus and the registration statement of which it forms a part, in the ordinary course of such selling stockholder’s business and, at the time of its purchase of such securities such selling stockholder had no agreements or understandings, directly or indirectly, with any person to distribute any such securities.

We have advised the selling stockholders that they may not use shares covered under this prospectus and the registration statement of which it forms a part, to cover short sales of common stock made prior to the date on which the registration statement shall have been declared effective by the SEC. If the selling stockholders use this prospectus for any sale of the common stock, it will be subject to the prospectus delivery requirements of the Securities Act. Each selling stockholder will be responsible to comply with the applicable provisions of the Securities Act and Securities Exchange Act of 1934, as amended (“Exchange Act”), and the rules and regulations thereunder promulgated, including, without limitation, Regulation M, as applicable to each selling stockholder in connection with resales of his shares under this registration statement.

We are required to pay all fees and expenses incident to the registration of the shares, but we will not receive any proceeds from the sale of the common stock.

SELLING SECURITY HOLDERS

This prospectus covers the disposition by the selling stockholders identified below, or their respective transferee(s), of a total of 87,703,769 shares of our common stock. The following table sets forth the number of shares of the common stock owned by each selling shareholder as of October 8, 2012, and after giving effect to this offering assuming all of the shares covered hereby are sold by the selling stockholders.

The selling stockholders may decide to sell all, some, or none of the securities listed below. We cannot provide you with any estimate of the number of securities that the selling stockholders will hold in the future. For purposes of this table, beneficial ownership is determined in accordance with the rules of the SEC, and includes voting power and investment power with respect to such securities.

Except as indicated in the footnotes to the table, the selling stockholders have not had any material relationship with us or our affiliates during the last three years. Except as indicated below, the selling stockholders are not registered broker-dealers or affiliates of broker-dealers.

Name and Address	Securities Beneficially Owned Prior to Offering(1)	Total Shares Offered By Selling Stockholders	Securities Beneficially Owned After Offering(2)	% Beneficial Ownership After Offering(2)
Dr. Samuel Herschkowitz (3)	39,702,856	39,702,856	0	0
SOK Partners, LLC (4)	48,000,913	48,000,913	0	0
TOTAL	87,703,769	87,703,769	0	0

(1) Beneficial ownership is determined in accordance with SEC rules, beneficial ownership includes any shares as to which the shareholder has sole or shared voting power or investment power, and also any shares which the stockholder has the right to acquire within 60 days of the date hereof, whether through the exercise or conversion of any stock option, convertible security, warrant or other right. The indication herein that shares are beneficially owned is not an admission on the part of the stockholder that he, she or it is a direct or indirect beneficial owner of those shares.

(2) Assumes the sale of all shares offered under this prospectus by the selling stockholders.

(3) Dr. Herschkowitz is also a beneficial owner of the shares owned by SOK Partners, LLC. Dr. Herschkowitz' beneficial ownership shown in the table includes 19,381,412 derivative shares of common stock underlying the convertible note held by Dr. Herschkowitz. See "Security Ownership of Certain Beneficial Owners and Management" and "Plan of Distribution." Dr. Herschkowitz' contracts and arrangements with the Company are described under "Certain Relationships and Related Party Transactions."

(4) Dr. Herschkowitz and Joshua Kornberg, our Chief Executive Officer, are managing partners of SOK Partners, LLC ("SOK"), and Ricardo Koenigsberger, one of our directors, is a holder of membership interest in SOK. Beneficial ownership shown in the table includes 25,520,143 derivative shares of common stock underlying the convertible note held by SOK. See "Plan of Distribution." Contracts and arrangements between SOK and the Company are described under "Certain Relationships and Related Party Transactions."

LEGAL MATTERS

Maslon Edelman Borman & Brand, LLP has rendered an opinion regarding the legality of the issuance of the shares of common stock being registered in this prospectus.

EXPERTS

Our financial statements for the fiscal years ended December 31, 2012 will be audited by our independent auditors, Olsen Thielen & Co., Ltd., certified public accountants registered with the Public Company Accounting Oversight Board, which firm also reviewed our interim financial statements for the six months ended June 30, 2012. Our financial statements for the fiscal year ended December 31, 2011 were audited by our independent auditors, Olsen Thielen & Co., Ltd., certified public accountants registered with the Public Company Accounting Oversight Board.

We have included our financial statements in this prospectus in reliance on the reports of the above-named independent auditors, given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the reporting requirements of the Exchange Act. Reports filed with the SEC pursuant to the Exchange Act, including proxy statements, annual and quarterly reports, and other reports filed by the Company can be inspected and copied at the public reference facilities maintained by the SEC at the Headquarters Office, 100 F. Street N.E., Room 1580, Washington, D.C. 20549. The reader may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The reader can request copies of these documents upon payment of a duplicating fee by writing to the SEC. Our filings are also available on the SEC's internet site at http://www.sec.gov.

BioDrain Medical, Inc.
Index of Financial Statements

BIODRAIN MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED BALANCE SHEETS
(Unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
Current Assets:		
Cash	$ 35,283	$ 122,985
Accounts Receivable	32,062	50,294
Inventories	96,792	97,605
Prepaid Expense and other assets	66,267	30,148
Total Current Assets	230,404	301,032
Fixed Assets, net	4,143	4,600
Intangibles, net	140,588	140,588
Total Assets	$ 375,135	$ 446,220
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Current portion of convertible debt, net of discounts of $0 and $28,741 (See Notes 6 and 9)	$ 1,206,082	$ 1,055,559
Accounts payable	663,481	731,135
Accrued expenses	577,926	566,574
Total Current Liabilities	2,447,489	2,353,268
Long-term debt and convertible debt, net of discounts of $0 and $16,446 (See Note 6)	89,300	630,153
Liability for equity-linked financial instruments (See Note 8)	106,466	166,063
Stockholders' Deficit:		
Common stock, $.01 par value, 200,000,000 authorized, 67,316,008 and 32,074,000 outstanding	673,160	320,740
Additional paid-in capital	11,776,818	8,844,952
Deficit accumulated during development stage	(14,718,098)	(11,868,956)
Total Stockholders' Deficit	(2,268,120)	(2,703,264)
Total Liabilities and Stockholders' Deficit	$ 375,135	$ 446,220

See Notes to Condensed Financial Statements

BIODRAIN MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Period From April 23, 2002 (Inception) To June 30, 2012
Revenue	$ 24,960	$ 2,374	$ 47,595	$ 2,374	$ 160,257
Cost of goods sold	1,710	1,820	15,516	1,820	78,736
Gross Margin	23,250	554	32,079	554	81,521
General and administrative expense	1,950,974	272,870	2,516,696	585,824	11,981,153
Operations expense	148,563	175,530	218,300	267,121	1,747,834
Sales and marketing expense	29,164	68,534	61,064	88,258	949,549
Interest expense	89,271	57,913	144,758	115,085	811,866
Loss (gain) on valuation of equity-linked financial instruments	(58,947)	(186,187)	(59,597)	(190,915)	(690,783)
Total expense	2,159,025	388,660	2,881,221	865,373	14,799,619
Net income (loss) available to common shareholders	$ (2,135,775)	$ (388,106)	$ (2,849,142)	$ (864,819)	$ (14,718,098)
Loss per common share basic and diluted	$ (0.04)	$ (0.02)	$ (0.06)	$ (0.04)	$ (1.86)
Weighted average shares used in computation, basic and diluted	54,656,895	22,669,526	44,619,113	19,630,580	7,920,827

See Notes to Condensed Financial Statements

BIODRAIN MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF STOCKHOLDERS' DEFICIT
PERIOD FROM APRIL 23, 2002 (INCEPTION)
TO JUNE 30, 2012

	Shares	Amount	Paid-in Capital	Deficit	Total
Issuance of common stock 9/1/02, $.0167 (1)	598,549	$ 5,985	$ 4,015	$ -	$ 10,000
Issuance of common 10/23/02, $1.67/share	2,993	$ 30	$ 4,970	$	$ 5,000
Net loss		$	$	$ (51,057)	$ (51,057)
Balance 12/31/02	601,542	$ 6,015	$ 8,985	$ (51,057)	$ (36,057)
Issuance of common 2/12/03, $.0167 (2)	23,942	$ 239	$ 161	$	$ 400
Issuance of common 6/11&12,$1.67 (3)	21,548	$ 216	$ 34,784	$	$ 35,000
Net loss		$	$	$ (90,461)	$ (90,461)
Balance 12/31/03	647,032	$ 6,470	$ 43,930	$ (141,518)	$ (91,118)
Issuance of common 5/25/04, $.0167 (4)	6,567	$ 66	$ 44	$	$ 110
Net loss		$	$	$ (90,353)	$ (90,353
Balance 12/31/04	653,599	$ 6,536	$ 43,974	$ (231,871)	$ (181,361)
Issuance of common 12/14/05, $.0167 (5)	14,964	$ 150	$ 100	$	$ 250
Vested stock options and warrants		$	$ 2,793	$	$ 2,793
Net loss		$	$	$ (123,852)	$ (123,852)
Balance 12/31/05	668,563	$ 6,686	$ 46,867	$ (355,723)	$ (302,170)
Issuance of common 5/16 & 8/8, $.0167 (6)	86,869	$ 869	$ 582	$	$ 1,451
Issuance of common 10/19 & 23, $.0167 (7)	38,906	$ 389	$ 261	$	$ 650
Issuance of common 12/01, $1.67 (8)	28,739	$ 287	$ 44,523	$	$ 44,810
Vested stock options and warrants		$	$ 13,644	$	$ 13,644
Net loss		$	$	$ (273,026)	$ (273,026)
Balance 12/31/06	823,077	$ 8,231	$ 105,877	$ (628,749)	$ (514,641)
Issuance of common 1/30/07 @ 1.67 (9)	599	$ 6	$ 994	$	$ 1,000
Value of equity instruments issued with debt		$	$ 132,938	$	$ 132,938
Capital contributions resulting from waivers of debt		$	$ 346,714	$	$ 346,714
Vested stock options and warrants		$	$ 73,907	$	$ 73,907
Net loss		$	$	$ (752,415)	$ (752,415)
Balance 12/31/07	823,676	$ 8,237	$ 660,430	$ (1,381,164)	$ (712,497)
Issuance of common 6/11 to 9/30, $.35 (10)	4,552,862	$ 45,528	$ 1,547,974	$	$ 1,593,502
Shares issued to finders, agents	2,012,690	$ 20,127	$ (20,127)	$	$ -
Shares issued to pay direct legal fees	285,714	$ 2,857	$ (2,857)	$	$
Issuance of common due to antidilution provisions	205,899	$ 2,059	$ (2,059)	$	$ -
Shares issued to pay investor relations services 6/23/08, $.35	250,000	$ 2,500	$ 85,000	$	$ 87,500
Vested stock options and warrants		$	$ 354,994	$	$ 354,994
Capital contributions resulting from waivers of debt		$	$ 129,684	$	$ 129,684
Net loss		$	$	$ (1,762,628)	$ (1,762,628)
Balance 12/31/08	8,130,841	$ 81,308	$ 2,753,039	$ (3,143,792)	$ (309,445)
Cumulative effect of adoption of EITF 07-5		$	$ (486,564)	$ 6,654	$ (479,910)
Vested stock options and warrants	111,385	$	$ 111,835	$ 111,385	$ 111,835
Shares issued 3/20/09 to pay for fund raising	125,000	$ 1,250	$ (1,250)	$	$ -
Shares issued under PMM in April 2009, $.50	700,000	$ 7,000	$ 343,000	$	$ 350,000
Shares issued under PPM in May 2009, $.50	220,000	$ 2,200	$ 107,800	$	$ 110,000
Shares issued under PPM in June 2009, $.50	50,000	$ 500	$ 24,500	$	$ 25,000
Shares issued under PPM in August 2009, $.50	80,000	$ 800	$ 39,200	$	$ 40,000
Shares issued under PPM in September 2009, $.50	150,000	$ 1,500	$ 73,500	$	$ 75,000
Shares issued to directors, management and consultant in August 2009, $.50	797,810	$ 7,978	$ 390,927	$	$ 398,905
Shares issued to finder in September 2009, $.50	100,000	$ 1,000	$ 49,000	$	$ 50,000
Capital contributions resulting from waivers of debt		$	$ 84,600	$	$ 84,600
Value of equity-linked financial instruments issued in connection with PPMs		$	$ (222,296)	$	$ (222,296)
Value of equity instruments issued with debt		$	$ 30,150	$	$ 30,150
Shares issued to consultant for fund raising	30,000	$ 300	$ (300)	$	$ -
Shares issued under PPM in November 2009, $.50	50,000	$ 500	$ 24,500	$	$ 25,000
Shares issued upon conversion of debt and interest, $.27	935,446	$ 9,354	$ 247,100	$	$ 256,454
Shares issued upon conversion of shareholder note, $.35	14,024	$ 140	$ 4,766	$	$ 4,906
Net loss		$	$	$ (2,892,230)	$ (2,892,230)
Balance 12/31/09	11,383,121	$ 113,830	$ 3,573,507	$ (6,029,368)	$ (2,342,030)
Shares issued in March 2010 under PPM, $.50	174,550	$ 1,746	$ 85,529	$	$ 87,275
Shares issued to consultants for IR and consulting, $.50	374,090	$ 3,741	$ 183,304	$	$ 187,045
Value of equity instruments issued for consulting services		$	$ 354,602	$	$ 354,602
Vested stock options and warrants		$	$ 11,382	$	$ 11,382
Value of equity-linked financial instruments issued in connection with PPM in first quarter		$	$ (25,553)	$	$ (25,553)

Shares issued in April 2010 under PPM, $.50	180,000	$ 1,800	$ 88,200	$	$ 90,000
Shares issued in May 2010 to consultant, $.50	12,850	$ 129	$ 6,296	$	$ 6,425
Shares issued in May 2010 to 2008 investors as a penalty for late registration of 4,552,862 shares, $.50	710,248	$ 7,102	$ 348,022	$	$ 355,124
Value of equity instruments issued with debt		$	$ 119,474	$	$ 119,474
Value of equity-linked financial instruments issued in connection with PPM in second quarter		$	$ (31,332)	$	$ (31,332)
Value of equity-linked financial instruments issued in connection with PPM in third quarter		$	$ (31,506)	$	$ (31,506)
Shares issued in September 2010 under PPM, $.10	250,000	$ 2,500	$ 22,500	$	$ 25,000
Shares issued to consultants in third quarter at $.22 per share	488,860	$ 4,889	$ 102,660	$	$ 107,549
Shares issued in November 2010 upon exercise of warrants at $.135 per share	128,571	$ 1,286	$ 16,071	$	$ 17,357
Shares issued in November 2010 to directors as compensation at $.15 per share	300,000	$ 3,000	$ 42,000	$	$ 45,000
Vested stock options in fourth quarter		$	$ 161,107	$	$ 161,107
Equity instruments issued to consultants in fourth quarter		$	$ 26,234	$	$ 26,234
Net loss		$	$	$ (1,352,709)	$ (1,352,709)
Balance 12/31/2010	14,002,290	$ 140,023	$ 5,052,497	$ (7,382,077)	$ (2,189,557)
Value of equity instruments issued with debt in first quarter		$	$ 47,908	$	$ 47,908
Shares issued in first quarter at $.075 per share under PPM	5,333,334	$ 53,334	$ 346,666	$	$ 400,000
Shares issued in first quarter at $.085 per share under PPM	1,294,117	$ 12,941	$ 97,059	$	$ 110,000
Shares issued in first quarter at $.09 per share under PPM	200,000	$ 2,000	$ 16,000	$	$ 18,000
Shares issued in first quarter at $.10 per share under PPM	150,000	$ 1,500	$ 13,500	$	$ 15,000
Vested stock options and warrants in first quarter		$	$ 268,549	$	$ 268,549
Equity instruments issued to consultants in first quarter		$	$ 91,504	$	$ 91,504
Stock issued upon conversion of debt in first quarter	416,010	$ 4,160	$ 15,840	$	$ 20,000
Stock issued to pay interest on debt in second quarter	158,036	$ 1,580	$ 20,920	$	$ 22,500
Shares issued in second quarter at $.085 per share under PPM	588,236	$ 5,882	$ 44,118	$	$ 50,000
Shares issued in second quarter at $.07 per share under PPM	500,000	$ 5,000	$ 30,000	$	$ 35,000
Stock issued upon conversion of debt and interest	941,034	$ 9,410	$ 22,590	$	$ 32,000
Vested stock options and warrants in second quarter		$	$ 82,463	$	$ 82,463
Equity instruments issued to consultants in second quarter		$	$ 12,256	$	$ 12,256
Vested stock options and warrants in third quarter		$	$ 1,357,494	$	$ 1,357,494
Equity instruments issued to consultants in third quarter		$	$ 147,116	$	$ 147,116
Restricted stock issued to consultants in third quarter	822,842	$ 8,228	$ 46,772	$	$ 55,000
Shares issued in third quarter at $.06 per share under PPM	3,500,000	$ 35,000	$ 175,000	$	$ 210,000
Shares issued in third quarter at $.07 per share under PPM	571,429	$ 5,715	$ 34,285	$	$ 40,000
Shares issued in third quarter at $.20 per share under PPM	562,500	$ 5,625	$ 106,875	$	$ 112,500
Shares issued upon exercise of stock options at $.01	100,000	$ 1,000	$	$	$ 1,000
Shares issued in fourth quarter at $.35 per share IR compensation	575,000	$ 5,750	$ 195,500	$	$ 201,250
Shares issued in fourth quarter at $.20 per share under PPM	812,500	$ 8,125	$ 154,375	$	$ 162,500
Equity instruments upon conversion of Accounts Payable in first quarter		$	$ 20,000	$	$ 20,000
Vested stock options and warrants in fourth quarter		$	$ 229,132	$	$ 229,132
Shares issued to private investor in fourth quarter at $.15 per share	1,546,667	$ 15,467	$ 216,533	$	$ 232,000
Net loss		$	$	$ (4,486,879)	$ (4,486,879)
Balance 12/31/2011	32,074,000	$ 320,740	$ 8,844,952	$ (11,868,956)	$ (2,703,264)
Shares issued in first quarter to institutional investor upon conversion of Note Payable at $.1342 per share	59,613	$ 596	$ 7,404	$	$ 8,000
Shares issued in first quarter to institutional investor upon conversion of Note payable at $.13 per share	107,692	$ 1,077	$ 12,923	$	$ 14,000
Shares issued in first quarter to institutional investor upon conversion of Note Payable at $.088 per share	170,455	$ 1,705	$ 13,295	$	$ 15,000
Shares issued in first quarter to institutional investor upon conversion of Note payable at $.0466 per share	343,348	$ 3,433	$ 12,567	$	$ 16,000
Shares issued in first quarter to institutional investor upon conversion of Note Payable at $.0446 per share	269,058	$ 2,690	$ 9,310	$	$ 12,000
Shares issued in first quarter to institutional investor upon conversion of Note payable at $.0466 per share	268,670	$ 2,687	$ 7,313	$	$ 10,000
Shares issued in first quarter to institutional investor upon conversion of Note payable at $.0397 per share	428,212	$ 4,282	$ 4,218	$	$ 8,500
Shares issued to a private investor in the first quarter at $.065 per share	4,615,385	$ 46,154	$ 253,846	$	$ 300,000
Shares issued for consulting to the now Interim CEO in the first quarter at $.065 per share	300,000	$ 3,000	$ 16,500	$	$ 19,500
Vested stock options and warrants in first quarter		$	$ 60,463	$	$ 60,463
Shares issued in second quarter to institutional investor upon conversion of Note payable at $.0286 per share	349,650	$ 3,497	$ 6,503	$	$ 10,000
Shares issued to a private investor in the second quarter per a convertible note default at $.15 per share	7,500,000	$ 75,000	$ 1,050,000	$	$ 1,125,000
Shares issued to a private investor in the second quarter at $.15 per share	263,333	$ 2,633	$ 36,867	$	$ 39,500
Shares issued upon exercise of options at $.01 per share	412,963	$ 4,130	$	$	$ 4,130
Shares issued to a private investor in the second quarter at $.065 per share	4,615,385	$ 46,154	$ 253,846	$	$ 300,000

Stock issued upon conversion of debt at $.15 per share	3,292,557	$ 32,926	$ 460,958	$	$ 493,884
Stock issued upon conversion of debt at $.065 per share	2,850,754	$ 28,508	$ 156,791	$	$ 185,299
Shares issued to private investor upon conversion of Note payable at $.18 per share	316,898	$ 3,169	$ 53,873	$	$ 57,042
Shares issued to private investor upon conversion of Note payable at $.052 per share	1,147,078	$ 11,471	$ 48,063	$	$ 59,534
Shares issued to private investor upon conversion of Note payable at $.10 per share	565,834	$ 5,658	$ 50,926	$	$ 56,584
Shares issued to private investor upon conversion of Note payable at $.032 per share	1,572,327	$ 15,723	$ 34,277	$	$ 50,000
Shares issued in second quarter to institutional investor upon conversion of Note payable at $.031 per share	387,097	$ 3,871	$ 8,129	$	$ 12,000
Stock issued upon conversion of debt at $.15 per share	397,267	$ 3,973	$ 55,617	$	$ 59,590
Shares issued to a Director as compensation at $.09 per share	277,778	$ 2,778	$ 22,222	$	$ 25,000
Shares issued in second quarter under PPM at $.07 per share	2,571,285	$ 25,713	$ 154,277	$	$ 179,990
Shares issued to institutional investor upon conversion of Note payable at $.0353 per share	509,915	$ 5,099	$ 12,901	$	$ 18,000
Shares issued to a private investor upon conversion of Note payable at $.032 per share	283,718	$ 2,837	$ 6,185	$	$ 9,022
Shares issued to an institutional investor upon conversion of Note payable at $.0297 per share	740,741	$ 7,407	$ 14,593	$	$ 22,000
Shares issued in second quarter at $.15 per share IR compensation	625,000	$ 6,250	$ 87,500	$	$ 93,750
Interest from first quarter for institutional investor upon Note payable conversion		$	$ 11,021	$	$ 11,021
Vested stock options and warrants		$	$ 9,478	$	$ 9,478
Net loss		$	$	$ (2,849,142)	$ (2,849,142)
Balance 6/30/12	67,316,013	$ 673,160	$ 11,776,818	$ (14,718,098)	$ (2,268,120)

(1) Founders shares, 1,000,000 pre-split

(2) 23,492 (40,000 pre-split) shares valued at $.0167 per share as compensation for loan guarantees by management

(3) Investment including 670 shares issued as a 10% finder's fee

(4) For payment of patent legal fees

(5) Compensation for loan guarantees by management

(6) For vendor contractual consideration

(7) Employment agreements

(8) Investment

(9) Conversion of convertible notes by management

(10) Investment, "October 2008 financing".

See Notes to Financial Statements

BIODRAIN MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	April 23, 2002 (Inception) To June 30, 2012
Cash flow from operating activities:			
Net loss	(2,849,142)	(864,819)	(14,718,098)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	457	1,214	10,022
Vested stock options and warrants	69,941	-	2,737,241
Equity instruments issued for management and consulting	1,877,750	151,120	3,747,690
Stock-based registration payments	-	-	355,124
Capital contributions resulting from waivers of debt		-	476,398
Amortization of debt discount	45,187	56,449	330,471
(Gain) loss on valuation of equity-linked instruments	(59,597)	(190,915)	(690,783)
Changes in assets and liabilities:			
Accounts receivable	18,232	(792)	(32,062)
Inventories	813	-	(96,792)
Prepaid expense and other assets	(36,119)	(36,860)	(66,267)
Notes payable to shareholders	-	-	(14,957)
Accounts payable	177,236	52,437	1,474,971
Accrued expenses	111,137	24,383	789,571
Net cash used in operating activities:	(644,105)	(807,783)	(5,697,471)
Cash flow from investing activities:			
Purchase of fixed assets	-	-	(12,258)
Purchase of intangibles	-	-	(142,495)
Net cash used in investing activities	-	-	(154,753)
Cash flow from financing activities:			
Proceeds from long-term and convertible debt	372,283	213,000	1,956,249
Repayment of convertible debt	-	-	(100,000)
Principal payments on long-term debt	-	(7,462)	(75,667)
Accrued interest converted to stock	-	22,500	-
Issuance of common stock	184,120	628,000	4,106,925
Net cash provided by (used in) financing activities	556,403	856,038	5,887,507
Net increase (decrease) in cash	(87,702)	48,255	35,283
Cash at beginning of period	122,985	9,383	-
Cash at end of period	35,283	57,638	35,283
Non cash transactions:			
Common stock issued for accrued interest/bonus	99,784	52,000	211,644
Conversion of accounts payable to convertible debt	-	89,300	546,600
Common stock issued to satisfy debt	807,800	-	1,031,800
Stock/warrant issued to satisfy accounts payable	244,890	-	264,890

See Notes to Condensed Financial Statements

BIODRAIN MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Amounts presented at and for the six months ended June 30, 2012 and June 30, 2011 are unaudited)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Continuance of Operations

BioDrain Medical, Inc. (the "Company") was incorporated under the laws of the State of Minnesota in 2002. The Company has developed an environmentally safe system for the collection and disposal of infectious fluids that result from surgical procedures and post-operative care. The Company also makes ongoing sales of our proprietary cleaning fluid to users of our systems. In April 2009, the Company received 510(k) clearance from the FDA to authorize the Company to market and sell its STREAMWAY® FMS products.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has suffered recurring losses from operations and has a stockholders' deficit. These factors raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Since inception, the Company raised approximately $4,107,000 in equity and $2,178,000 in debt financing, including $1,153,000 in equity and $525,000 in convertible debt in 2011. The Company has raised approximately $184,120 in equity and $373,000 in convertible debt in the first and second quarters of 2012. The Company is currently engaged in a private placement of units of common stock and warrants. The Company is also engaged in a corporate restructuring, including actively seeking to convert indebtedness into equity. See "Part II Other Information; Item 5 Other Information".

Recent Accounting Developments

We reviewed all other significant newly issued accounting pronouncements and determined they are either not applicable to our business or that no material effect is expected on our financial position and results of our operations.

Valuation of Intangible Assets

We review identifiable intangible assets for impairment in accordance with ASC 360- Property, Plant and Equipment ("ASC 360"), whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Our intangible assets are currently solely the costs of obtaining trademarks and patents. Events or changes in circumstances that indicate the carrying amount may not be recoverable include, but are not limited to, a significant change in the medical device marketplace and a significant adverse change in the business climate in which we operate. If such events or changes in circumstances are present, the undiscounted cash flows method is used to determine whether the intangible asset is impaired. Cash flows would include the estimated terminal value of the asset and exclude any interest charges. If the carrying value of the asset exceeds the undiscounted cash flows over the estimated remaining life of the asset, the asset is considered impaired, and the impairment is measured by reducing the carrying value of the asset to its fair value using the discounted cash flows method. The discount rate utilized is based on management's best estimate of the related risks and return at the time the impairment assessment is made.

Our accounting estimates and assumptions bear various risks of change, including the length of the current economic downturn facing the United States, the expansion of the slowdown in consumer spending in the U.S. medical markets despite the early expressed opinions of financial experts that the medical market would not be as affected as other markets and failure to gain acceptance in the medical market.

Accounting Policies and 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.

Presentation of Taxes Collected from Customers

Sales taxes are imposed on the Company's sales to nonexempt customers. The Company collects the taxes from customers and remits the entire amounts to the governmental authorities. The Company's accounting policy is to exclude the taxes collected and remitted from revenues and expenses.

Shipping and Handling

Shipping and handling charges billed to customers are recorded as revenue. Shipping and handling costs are recorded within cost of goods sold on the statement of operations.

Advertising

Advertising costs are expensed as incurred. There were no advertising expenses in the three and six months ended June 30, 2012 and $0 and $1,100 in the three and six months ended June 30, 2011, respectively.

Research and Development

Research and development costs are charged to operations as incurred. There were no research and development expenses in the three and six months ended June 30, 2012 and June 30, 2011.

Revenue Recognition

The Company recognizes revenue in accordance with the SEC's Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements, as amended by Staff Accounting Bulletin No. 104 (together, SAB 101), and ASC 605- Revenue Recognition.

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable and collectability is probable. Delivery is considered to have occurred upon either shipment of the product or arrival at its destination based on the shipping terms of the transaction. The Company's standard terms specify that shipment is FOB BioDrain and the Company will, therefore, recognize revenue upon shipment in most cases. This revenue recognition policy applies to shipments of the STREAMWAY FMS units as well as shipments of cleaning solution kits. When these conditions are satisfied, the Company recognizes gross product revenue, which is the price it charges generally to its customers for a particular product. Under the Company's standard terms and conditions, there is no provision for installation or acceptance of the product to take place prior to the obligation of the customer. The customer's right of return is limited only to the Company's standard one-year warranty whereby the Company replaces or repairs, at its option, and it would be rare that the STREAMWAY FMS unit or significant quantities of cleaning solution kits may be returned. Additionally, since the Company buys both the STREAMWAY FMS units and cleaning solution kits from "turnkey" suppliers, the Company would have the right to replacements from the suppliers if this situation should occur.

Receivables

Receivables are reported at the amount the Company expects to collect on balances outstanding at fiscal year end. The Company has determined there will be no losses on balances outstanding at the six months ended June 30, 2012.

Inventories

Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out basis. Inventory balances are as follows:

	June 30, 2012	December 31, 2011
Finished goods	$ 67,498	$ 94,331
Raw materials	29,294	3,274
Total	$ 96,792	$ 97,605

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the respective assets. Estimated useful asset life by classification is as follows:

	Years
Computers and office equipment	3
Furniture and fixtures	5

Upon retirement or sale, the cost and related accumulated depreciation are removed from the balance sheet and the resulting gain or loss is reflected in operations. Maintenance and repairs are charged to operations as incurred.

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

The Company accounts for income taxes in accordance with ASC 740- *Income Taxes("ASC 740")* . Under ASC 740, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and net operating loss and credit carry forwards using enacted tax rates in effect for the year in which the differences are expected to impact taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

The Company reviews income tax positions expected to be taken in income tax returns to determine if there are any income tax uncertainties. The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities, based on technical merits of the positions. The Company has identified no income tax uncertainties.

Tax years subsequent to 2007 remain open to examination by federal and state tax authorities.

Patents and Intellectual Property

In June 2008, the Company completed and executed an agreement to secure exclusive ownership of the Company's primary patent from an inventor, Marshall Ryan. Mr. Ryan received a combination of cash and warrants, and he will receive a 4% royalty on STREAMWAY FMS (the Product) sales for the life of the patent. At the signing of the agreement, Mr. Ryan received $75,000 in exchange for the exclusive assignment of the patent. In addition, on June 30, 2009, Mr. Ryan, through his Mid-State Stainless, Inc. entity, was entitled to receive $100,000 as payment (currently recorded as an account payable with the Company) for past research and development activities. Should Mr. Ryan be utilized in the future for additional product development activities, he will be compensated at a rate of $95.00 per hour.

Mr. Ryan also received a warrant, with immediate vesting, to purchase 150,000 shares of the Company's common stock at a price of $.35 per share. The warrant has a five-year term ending on June 30, 2013 and was assigned a value of $28,060 using a Black-Scholes formula. This amount was expensed as consulting expense in 2008 using a five-year expected life, a 3.73% risk-free interest rate, an expected 59% volatility and a zero dividend rate. Should there be a change in control of the Company (defined as greater than 50% of the Company's outstanding stock or substantially all of its assets being transferred to one independent person or entity), Mr. Ryan will be owed a total of $2 million to be paid out over the life of the patent if the change in control occurs within 12 months of the first sale of the product; or $1 million to be paid out over the life of the patent if the change in control occurs between 12 and 24 months of the first sale of the product; or $500,000 to be paid out over the life of the patent if the change in control occurs between 24 and 36 months of the first sale of the product. There will be no additional payment if a change in control occurs more than 36 months after the first sale of the product

Subsequent Events

The Board of Directors approved Joshua Kornberg as the Chief Executive Officer/President on July 22, 2012. The Board of Directors also approved David O. Johnson and Bob Myers as Chief Operating Officer and Chief Financial Officer, respectively, on July 1, 2012.

On August 13, 2012, the Company entered into an employment agreement with Joshua Kornberg, who has served as Chief Executive Officer since July 22, 2012 and who served as Interim Chief Executive Officer from April 24, 2012 to July 21, 2012.

On August 13, 2012, the Company entered into employment agreements with David O. Johnson, who has served as Chief Operating Officer since July 1, 2012, and Bob Myers, who has who has served as Chief Financial Officer since July 1, 2012.

Adoption of 2012 Stock Incentive Plan. On August 13, 2012, the Board of Directors of the Company adopted the 2012 Stock Incentive Plan (the "Plan"). The Plan became effective on that date. The Company intends to seek shareholder approval of the Plan in 2012 so that stock options may be granted under the Plan in the future that qualify as incentive stock options under the Code. The Plan is intended to replace the 2008 Equity Incentive Plan (the "2008 Plan"). Currently, options to purchase 4,263,042 shares of Common Stock are outstanding under the 2008 Plan. No further awards will be made under the 2008 Plan, although awards granted prior to August 11, 2012 continue to be governed by the 2008 Plan.

Letter Agreement With Investors Regarding Forbearance and Dilution Protection. Effective August 15, 2012, the Company entered into a letter agreement with Dr. Samuel Herschkowitz, his affiliate, Atlantic Partners Alliance ("APA"), and SOK Partners, LLC ("SOK"), an investment partnership. Dr. Herschkowitz and Joshua Kornberg, the Chief Executive Officer of the Company, are managers of APA and SOK Partners. Under the letter agreement, among other things, (i) Dr. Herschkowitz agreed to forbear from asserting his rights as a secured creditor to substantially all of the Company's assets, resulting from the Company's defaults; (ii) the Company agreed to issue shares of common stock to Dr. Herschkowitz and SOK and adjust the conversion price of their convertible notes to satisfy the Company's obligations to protect them against dilution under a prior letter agreement; (iii) Dr. Herschkowitz and SOK agreed to extend the maturity of their notes; (iv) The Company agreed to pay certain compensation to Dr. Herschkowitz upon the achievement of financial milestones and (v) Dr. Herschkowitz clarified and waived certain of his rights, including the right to interest at a penalty rate upon default.

Private Placement of Common Stock and Warrants. The Company continues to make sales of units of common stock at a price of $0.07 per share and warrants to purchase an equal number of shares at an exercise price of $0.15 per share. The Company has raised a total of $433,446.51 in this private placement, selling a total of 6,192,094 shares of common stock and issuing warrants for a total of 6,192,094 shares.

Other Restructuring. The Company continues an ongoing restructuring process negotiating with a significant number of creditors other than Dr. Herschkowitz and SOK to convert their indebtedness into common stock. The Company has evaluated all other subsequent events through the date of this filing. The Company does not believe there are any other subsequent events that require disclosure.

Interim Financial Statements

The Company has prepared the unaudited interim financial statements and related unaudited financial information in the footnotes in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial statements. These interim financial statements reflect all adjustments consisting of normal recurring accruals, which, in the opinion of management, are necessary to present fairly the Company's financial position, the results of its operations and its cash flows for the interim periods. These interim financial statements should be read in conjunction with the annual financial statements and the notes thereto contained in the Form 10-K filed with the SEC on April 16, 2012. The nature of the Company's business is such that the results of any interim period may not be indicative of the results to be expected for the entire year.

NOTE 2 – DEVELOPMENT STAGE OPERATIONS

The Company was formed April 23, 2002. Since inception through October 8, 2012, 98,603,584 shares of common stock have been issued between par value and $1.67. Operations since incorporation have primarily been devoted to raising capital, obtaining financing, development of the Company's product, and administrative services.

NOTE 3 – STOCKHOLDERS' DEFICIT, STOCK OPTIONS AND WARRANTS

In connection with the financing completed in October 2008, the Company has effected two reverse stock splits, one on June 6, 2008 and another on October 20, 2008. In accordance with SAB Topic 4C, all stock options and warrants and their related exercise prices are stated at their post-reverse stock split values.

The Company has an equity incentive plan, which allows issuance of 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 ranging from three to ten years.

Accounting for share-based payment

The Company has adopted ASC 718- *Compensation-Stock Compensation* ("ASC 718"). Under ASC 718 stock-based employee compensation cost is recognized using the fair value based method for all new awards granted after January 1, 2006 and unvested awards outstanding at January 1, 2006. Compensation costs for unvested stock options and non-vested awards that were outstanding at January 1, 2006, are being recognized over the requisite service period based on the grant-date fair value of those options and awards as previously calculated under SFAS 123 for pro forma disclosures, using a straight-line method. We elected the modified-prospective method under which prior periods are not retroactively restated.

ASC 718 requires companies to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model or other acceptable means. The Company uses the Black-Scholes option valuation model which requires the input of significant assumptions including an estimate of the average period of time employees will retain vested stock options before exercising them, the estimated volatility of the Company's common stock price over the expected term, the number of options that will ultimately be forfeited before completing vesting requirements, the expected dividend rate and the risk-free interest rate. Changes in the assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related expense recognized. The assumptions the Company uses in calculating the fair value of stock-based payment awards represent the Company's best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and the Company uses different assumptions, the Company's equity-based compensation expense could be materially different in the future.

Since the Company's common stock has no significant public trading history, and the Company has experienced no significant option exercises in its history, the Company is required to take an alternative approach to estimating future volatility and estimated life and the future results could vary significantly from the Company's estimates. The Company compiled historical volatilities over a period of 2-7 years of 15 small-cap medical companies traded on major exchanges and 10 mid-range medical companies on the OTC Bulletin Board and combined the results using a weighted average approach. In the case of ordinary options to employees the Company determined the expected life to be the midpoint between the vesting term and the legal term. In the case of options or warrants granted to non-employees the Company estimated the life to be the legal term unless there was a compelling reason to make it shorter.

When an option or warrant is granted in place of cash compensation for services the Company deems the value of the service rendered to be the value of the option or warrant. In most cases, however, an option or warrant is granted in addition to other forms of compensation and its separate value is difficult to determine without utilizing an option pricing model. For that reason the Company also uses the Black-Scholes-Merton option-pricing model to value options and warrants granted to non-employees, which requires the input of significant assumptions including an estimate of the average period the investors or consultants will retain vested stock options and warrants before exercising them, the estimated volatility of the Company's common stock price over the expected term, the number of options and warrants that will ultimately be forfeited before completing vesting requirements, the expected dividend rate and the risk-free interest rate. Changes in the assumptions can materially affect the estimate of fair value of stock-based consulting and/or compensation and, consequently, the related expense recognized.

Since the Company has limited trading history in its stock and no first-hand experience with how its investors and consultants have acted in similar circumstances, the assumptions the Company uses in calculating the fair value of stock-based payment awards represent its best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and the Company uses different assumptions, the Company's equity-based consulting and interest expense could be materially different in the future.

Valuation and accounting for options and warrants

The Company determines the grant date fair value of options and warrants using a Black-Scholes option valuation model based upon assumptions regarding risk-free interest rate, expected dividend rate, volatility and estimated term. For grants issued during 2008, the Company used a 2.0 to 4.5% risk-free interest rate, 0% dividend rate, 53-66% volatility and estimated term of 2.5 to 7.5 years. Values computed using these assumptions ranged from $.102 per share to $.336 per share. Warrants or options awarded for services rendered are expensed over the period of service (normally the vesting period) as compensation expense for employees or an appropriate consulting expense category for awards to consultants and directors. Warrants granted in connection with a common equity financing are included in stockholders' equity, provided that there is no re-pricing provision that requires them to be treated as a liability (See Note 10) and warrants granted in connection with a debt financing are treated as a debt discount and amortized using the interest method as interest expense over the term of the debt.

Warrants issued in connection with the $100,000 convertible debt that closed March 1, 2007 created a debt discount of $40,242 that is being amortized as additional interest over its 5-year term. Warrants issued in connection with the $170,000 convertible “bridge” debt that closed in July 2007 created a calculated debt discount of $92,700 that was fully expensed over its loan term that matured April 30, 2008.

The Company issued $100,000 in convertible debt in October 2009 and issued a warrant, in connection with the debt, for 200,000 shares of common stock at $.65 per share. The Company determined that the warrant had an initial value of $30,150 that was treated as a debt discount and amortized as additional interest expense over the 24-month term of the note.

The Company also issued $200,000 in convertible debt in June 2010 and issued a warrant, in connection with the debt, to purchase 1,111,112 shares of common stock at $.46 per share. The Company determined that the value of the June 2010 warrant is $96,613.This value is treated as a debt discount and amortized as additional interest expense over the 22-month term of the note.

The Company also issued $32,000 in convertible debt in September 2010 and issued a warrant to purchase 320,000 shares of common stock at $.18 per share. The Company determined that this warrant has a value of $15,553 that was treated as a debt discount and amortized as additional interest expense over the 18-month term of the note.

The Company also issued $16,800 in convertible debt in December 2010 and issued a warrant to purchase 200,000 shares of common stock at $.084 per share. The Company determined that this warrant has a value of $7,232 that was treated as a debt discount and amortized as additional interest expense over the 24- month term of the note.

In January 2011, the Company issued three convertible notes of $50,000 each and also issued warrants to purchase 1,595,239 common shares at $.20 per share. The value of the warrants was determined to be $47,908 and is being treated as a debt discount and amortized as additional interest expense over the 24-month term of the notes.

For grants of stock options and warrants in 2011 the Company used a 0.34 to 2.44% risk-free interest rate, 0% dividend rate, 54-66% volatility and estimated term of 3 to 10 years. Values computed using these assumptions ranged from $0.0126 to $0.3412 per share.

For grants of stock options and warrants in 2012 the Company used a 0.38% risk-free interest rate, 0% dividend rate, 54% volatility and estimated term of 3 and 5 years. Value computed using these assumptions were $0.1090 to $0.15, 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	20,950	$ 2.62
Issued	23,942	1.67	71,826	0.85
Outstanding at December 31, 2006	41,898	1.67	92,776	1.25
Issued	5,984	1.67	28,502	0.35
Outstanding at December 31, 2007	47,882	1.67	121,278	1.04
Issued	1,243,292	0.20	5,075,204	0.45
Expired			(11,971)	3.76
Outstanding at December 31, 2008	1,291,174	0.26	5,184,511	0.45
Issued	205,000	0.37	2,188,302	0.65
Outstanding at December 31, 2009	1,496,174	0.27	7,372,813	0.49
Issued	2,210,000	0.17	3,435,662	0.34
Expired	(207,956)	0.43	(8,979)	1.67
Exercised			(128,571)	0.46
Outstanding at December 31, 2010	3,498,218	0.19	10,670,925	0.44
Issued	2,483,334	0.01	18,222,243	0.14
Expired	(83,941)	0.73	(2,010,917)	0.48
Exercised	(100,000)	0.01		
Outstanding at December 31, 2011	5,797,611	0.11	26,882,251	0.23
Issued			87,500	0.20
Expired	(382,716)	0.01	(648,597)	0.35
Exercised				

Outstanding at March 31, 2012	5,414,895		0.12	26,321,154		0.21
Issued				2,601,285		0.15
Expired	(345,679)		0.01	(1,170,000)		0.62
Exercised	(412,963)		0.01			
Outstanding at June 30, 2012	**4,656,253**	**$**	**0.13**	**27,752,439**	**$**	**0.19**

(1) Adjusted for the reverse stock splits in total at June 6, 2008 and October 20, 2008.

At June 30, 2012, 4,540,212 stock options are fully vested and currently exercisable with a weighted average exercise price of $0.13 and a weighted average remaining term of 2.15 years. All warrants are fully vested and exercisable. Stock-based compensation recognized for the six months ending June 2012 and June 2011 was $69,941 and $65,204, respectively. The Company has $39,491 of unrecognized compensation expense related to non-vested stock options that are expected to be recognized over a weighted average period of approximately 2 years as of June 2012.

The following summarizes the status of options and warrants outstanding at June 30, 2012:

Range of Exercise Prices		Shares	Weighted Average Remaining Life
Options:			
$	0.01	1,785,268	3.82
$	0.15	2,060,000	1.88
$	0.35	775,000	0.87
$	0.50	30,000	0.37
$	1.67	5,985	0.37
Total		4,656,253	
Warrants:			
$	0.01	200,000	3.44
$	0.02	71,826	1.95
$	0.075	8,657,746	1.84
$	0.10	2,328,572	1.39
$	0.12	500,000	1.84
$	0.13	631,429	1.89
$	0.15	3,934,618	3.40
$	0.16	500,000	1.77
$	0.17	1,882,353	1.77
$	0.18	200,000	1.61
$	0.20	2,532,739	1.58
$	0.25	1,375,000	2.24
$	0.35	350,000	0.61
$	0.46	3,828,606	0.60
$	0.65	759,550	0.59
Total		27,752,439	

Stock options and warrants expire on various dates from July 2012 to July 2021.

Under the terms of the Company's agreement with investors in the October 2008 financing, 1,920,000 shares of common stock were the maximum number of shares allocated to the Company's existing shareholders at the time of the offering (also referred to as the original shareholders or the "Founders"). Since the total of the Company's fully diluted shares of common stock was greater than 1,920,000 shares, in order for the Company to proceed with the offering, the Board of Directors approved a reverse stock split of 1-for-1.2545. After this split was approved, additional options and warrants were identified, requiring a second reverse stock split in order to reach the 1,920,000 shares. The second reverse stock split on the reduced 1-for-1.2545 balance was determined to be 1-for-1.33176963. Taken together, if only one reverse stock split was performed, the number would have been a reverse stock split of 1-for-1.670705.

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

On October 20, 2008, the Board of Directors (i) approved the 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 arrive at 11,970,994 shares and (ii) approved a resolution to increase the number of authorized shares of the Company's common stock from 11,970,994 to 40,000,000, which was approved by the Company’s shareholders holding a majority of the shares entitled to vote thereon at a special meeting of shareholders held on December 3, 2008.

The shareholders approved an increase in authorized shares to 80 million shares in an annual shareholder meeting held on June 22, 2010 and approved an increase in authorized shares to 200 million shares in a special shareholder meeting held on September 7, 2011.

Stock, Stock Options and Warrants Granted by the Company

The following table is the listing of stock options and warrants as of June 30, 2012 by year of grant:

Stock Options:

Year	Shares	Price
2007	5,985	$ 1.67
2008	1,243,292	.01-.35
2009	105,000	.35-.50
2010	2,060,000	.15
2011	1,241,976	.01
2012	-	-
Total	4,656,253	$.01-1.67

Warrants:

Year	Shares	Price
2006	35,913	$ .02
2007	-	-
2008	2,771,629	.02-.46
2009	598,207	.13-.65
2010	3,435,662	.01-.65
2011	18,222,243	.075-.25
2012	2,688,785	.15-.20
Total	27,752,439	$.01-1.67

NOTE 4 - LOSS PER SHARE

The following table presents the shares used in the basic and diluted loss per common share computations:

	Three Months Ended June 30,		Six Months Ended June 30,		Period from April 23, 2002 (Inception) to June 30,
	2012	2011	2012	2011	2012
Numerator:					
Net loss available in basic and diluted calculation	$ (2,135,775)	$ (388,106)	$ (2,849,142)	$ (864,819)	$ (14,718,098)
Denominator:					
Weighted average common shares outstanding-basic	54,656,895	22,659,526	44,619,113	19,630,580	7,920,827
Effect of diluted stock options and warrants (1)		-	-		
Weighted average common shares outstanding-diluted	54,656,895	22,659,526	44,619,113	19,630,580	7,920,827
Loss per common share-basic and diluted	$ (0.04)	$ (0.02)	$ (0.06)	$ (0.04)	$ (1.86)

(1) The number of shares underlying options and warrants outstanding as of June 30, 2012 and June 30, 2011 are 32,408,692 and 24,679,688 respectively. The effect of the shares that would be issued upon exercise of such options and warrants has been excluded from the calculation of diluted loss per share because those shares are anti-dilutive.

NOTE 5 – INCOME TAXES

The provision for income taxes consists of an amount for taxes currently payable and a provision for tax consequences deferred to future periods. 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.

There is no income tax provision in the accompanying statements of operations due to the cumulative operating losses that indicate a 100% valuation allowance for the deferred tax assets and state income taxes is appropriate.

Federal and state income tax return operating loss carryovers as of June 30, 2012, were approximately $14,104,000 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 June 30, 2012 and December 31, 2011 are as follows:

	June 30, 2012	December 31, 2011
Deferred Tax Asset:		
Net Operating Loss	$ 3,290,000	$ 2,626,000
Other	57,000	49,000
Total Deferred Tax Asset	3,347,000	2,675,000
Less Valuation Allowance	3,347,000	2,675,000
Net Deferred Income Taxes	$ —	$ —

NOTE 6 – LONG-TERM DEBT

Long-term debt is as follows:

	June 30, 2012	December 31, 2011
Notes payable to two individuals, net of discounts of $0 and $1,341 with interest only payments at 12% to March 2012 when the remaining balance was payable. The notes are convertible into 285,715 shares of common stock in the Company at $.35 per share.	$ 100,000	$ 98,659
Note payable issued on October 26, 2009 to the parents of one the Company's former directors. The note bears interest at 8%, matured on March 31, 2012 and is convertible into shares of common stock at $.35 per share.	100,000	100,000
Notes payable issued to two individuals in January, 2010. The notes bear interest at 8% and matured on March 31, 2012. The notes were converted into shares of common stock.	-	100,000
Note payable issued on June 12, 2010 to the parents of one of the Company's former directors, net of a discount of $0 and $14,931. The note bears interest at 12%, matured on March 31, 2012, and is convertible into common stock at $.18 per share.	200,000	185,069
Note payable issued on June 14, 2011 to an institutional investor. The note accrued interest at 8%, during the three months ended March 31, 2012. The note was converted into shares of common stock.	-	63,000
Note payable issued on July 12, 2011 to an institutional investor. The note bears interest at 8%, matured on April 16, 2012. The note was converted into shares of common stock.	-	37,500
Note payable issued on September 16, 2010 to an institutional investor. The note bears interest at 10%, matured on March 15, 2012 and is convertible into common stock at $.18 per share.	100,000	100,000
Note payable issued on December 23, 2010 to the parents of one of our former directors, net of a discount of $0 and $4,960. The note bears interest at 12%, matures December 23, 2012 and is convertible into common stock at $.084 per share.	16,800	11,840
Note payable issued December 31, 2010 to a law firm that accepted this note in full payment of their past due legal fees. The Note had interest at 6%. The note was converted into shares of common stock.	-	457,300
Note payable issued on September 21, 2010 to the parents of one of our former directors, net of a discount of $0 and $0. The note bears interest at 12%, matures December 23, 2012 and is convertible into shares of common stock at $.18 per share.	32,000	32,000
Notes payable issued in January 2011 to three individuals, net of a debt discount of $0 and $23,954. The notes bear interest at 10%, have a 24 month term and are convertible into common stock at $0.084 to $0.10 per share.	50,000	126,046
Note payable issued January 1, 2011 to a law firm that accepted this note in full payment of their past due legal fees. The Note bears interest at 6%, matures December 31, 2014 and is convertible into common stock at $.15 per share.	89,300	89,300
On November 18, 2011 the Company issued a convertible note with an institutional investor at 8% interest. The note was converted into shares of common stock.	-	50,000
Note payable issued in 2006, and then extended to March 31, 2012, to an investor for $.35 per share of common stock, the note bears interest at 10.25%	10,000	10,000
Total	$ 698,100	$ 1,460,714
Less amount due within one year - (1)	608,800	830,561
Long-Term Debt	$ 89,300	$ 630,153

(1) The short-term notes have all matured except for the $16,800 that matures in December 2012. The Company is currently negotiating with the note holders.

Cash payments for interest were $0 for the six months ended June 30, 2012 and $187 for the six months ended June 30, 2011.

Principal payments required during the 12 month periods ended June 30:

2013	$	1,206,082
2014	$	0
2015	$	89,300

NOTE 7 – RENT OBLIGATION

The Company leases its principal office under a non-cancelable lease that extends five years. In addition to rent, the Company pays real estate taxes and repairs and maintenance on the leased property. Rent expense was $26,084 in the six months ended June 30, 2012 and $24,293 in the six months ended June 30, 2011. The Company moved its headquarters on May 1, 2012. The rental management remains the same and the Company is operating on a month to month lease with no escalations.

NOTE 8 – LIABILITY FOR EQUITY-LINKED FINANCIAL INSTRUMENTS

The Company adopted ASC 815- Derivatives and Hedging ("ASC 815") on January 1, 2009. ASC 815 mandates a two-step process for evaluating whether an equity-linked financial instrument or embedded feature is indexed to the entity's own stock. It was effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, which was the Company's first quarter of 2009. Many of the warrants issued by the Company contain a strike price adjustment feature, which upon adoption of ASC 815, changed the classification (from equity to liability) and the related accounting for warrants with a $479,910 estimated fair value of as of January 1, 2009. An adjustment was made to remove $486,564 from paid-in capital (the cumulative values of the warrants on their grant dates), a positive adjustment of $6,654 was made to accumulated deficit, representing the gain on valuation from the grant date to January 1, 2009, and $479,910 was booked as a liability. The warrants issued in 2011 do not contain a strike price adjustment feature and, therefore, are not treated as a liability.

The January 1, 2009 valuation was computed using the Black-Scholes valuation model based upon a 2.5-year expected term, an expected volatility of 63%, an exercise price of $.46 per share, a stock price of $.35, a zero dividend rate and a 1.37% risk free interest rate. Subsequent to January 1, 2009 these warrants were re-valued at the end of each quarter and a gain or loss was recorded based upon their increase or decrease in value during the quarter. Likewise, new warrants that were issued during 2009 and 2010 were valued, using the Black-Scholes valuation model on their date of grant and an entry was made to reduce paid-in capital and increase the liability for equity-linked financial instruments. These warrants were also re-valued at the end of each quarter based upon their expected life, the stock price, the exercise price, assumed dividend rate, expected volatility and risk free interest rate. A significant reduction in the liability was realized in 2010 primarily due to a reduction from $.50 to $.22 per share in the underlying stock price. The Company realized a slight increase in the liability for existing warrants during the first quarter of 2012 primarily due to a reduction in the spread between the exercise price and the market price of the underlying shares, additionally; there was an increase in the liability due to the extension of some existing warrants. The Company realized a large decrease in the liability for existing warrants in the second quarter of 2012 as many of the existing warrants expired and the spread of the remaining warrants between exercise and market price was more consistent.

The inputs to the Black-Scholes model during 2009, 2010, 2011 and 2012 were as follows:

Stock price	$ .08 to $.50
Exercise price	$ .01 to $.65
Expected life	2.0 to 6.5 years
Expected volatility	54% to 68%
Assumed dividend rate	- %
Risk-free interest rate	.13% to 2.97%

The original valuations, annual gain/(loss) and end of year valuations are shown below:

	Initial Value	Annual Gain (Loss)	Value at 12/31/09	2010 Gain (Loss)	Value at 12/31/10	2011 Gain (Loss)	Value at 12/31/2011	2012 Gain (Loss)	Value at 6/30/2012
January 1, 2009 adoption	$ 479,910	$ (390,368)	$ 870,278	$ 868,772	$ 1,506	$ (88,290)	$ 89,796	$ 43,266	$ 46,530
Warrants issued in quarter ended 6/30/2009	169,854	20,847	149,007	147,403	1,604	(4,689)	6,293	6,293	-
Warrants issued in quarter ended 9/30/2009	39,743	(738)	40,481	40,419	62	(1,562)	1,624	1,608	16
Warrants issued in quarter ended 12/31/2009	12,698	617	12,081	12,053	28	(724)	752	556	196
Subtotal	702,205		1,071,847						
Warrants issued in quarter ended 3/31/2010	25,553			25,014	539	(5,571)	6,109	3,209	2,900
Warrants issued in quarter ended 6/30/2010	31,332			30,740	592	(6,122)	6,714	3,247	3,467
Warrants issued in quarter ended 9/30/2010	31,506			20,891	10,615	(44,160)	54,775	1,418	53,357
Total	$ 790,596	$ (369,642)	$ 1,071,847	$ 1,145,292	$ 14,946	$ (151,118)	$ 166,063	$ 59,597	$ 106,466

NOTE 9 – RELATED PARTY

The Company entered into agreements, in 2008, with our Chairman of the Board, Lawrence Gadbaw, and in 2009 with a board member, Peter Morawetz, to pay Mr. Gadbaw $25,000 and Mr. Morawetz $30,000 upon the Company raising $3 million in new equity. Mr. Gadbaw received 277,778 shares at $.09 per share in June 2012 as compensation in lieu of the $25,000 cash for raising $3 million in new equity. Mr. Gadbaw was paid the balance due under his separation agreement from 2008. This amount was $46,000 upon signing the agreement in 2008 payable at $2,000 per month; the payments to Mr. Gadbaw are complete. Mr. Gadbaw is due $6,000 in accounts payable as of June 30, 2012 pertaining to his monthly fee as Chairman of the Board of Directors. Mr. Gadbaw also received a warrant for 30,000 shares at $.15 per share in June 30, 2012 as compensation for service as Chairman.

On March 28, 2012, the Company, entered into a Convertible Note Purchase Agreement, dated as of March 28, 2012 (the “SOK Purchase Agreement”) with SOK Partners, LLC (“SOK Partners”), an investment partnership. Josh Kornberg, who is a member of the Company’s Board of Directors, and Dr. Samuel Herschkowitz are affiliates of the manager of SOK Partners and Ricardo Koenigsberger, a director, is a holder of membership units of SOK Partners. Pursuant to the SOK Purchase Agreement, the Company issued a 20.0% convertible note due August 2012 in the principal amount of up to $600,000. Principal and accrued interest on the note is due and payable on August 28, 2012. The Company’s obligations under the note are secured by the grant of a security interest in substantially all tangible and intangible assets of the Company. The SOK Purchase Agreement and the note include customary events of default that include, among other things, non-payment defaults, covenant defaults, inaccuracy of representations and warranties, cross-defaults to other indebtedness and bankruptcy and insolvency defaults. The occurrence of an event of default could result in the acceleration of the Company’s obligations under the note, and interest rate of twenty-four (24%) percent per annum accrues if the note is not paid when due. The balances of the Samuel Herschkowitz and SOK Partners notes are $240,000 and $357,282, respectively, as of the month ended June 30, 2012.

On March 28, 2012, the Company received an advance of $84,657 under the note, including a cash advance of $60,000 net of a prepayment of interest on the first $300,000 in advances under the note. The holder of the note is entitled to convert the note into shares of common stock of the Company at an initial conversion price per share of $0.065 per share, subject to adjustment in the event of (1) certain issuances of common stock or convertible securities at a price lower than the conversion price of the note, and (2) recapitalizations, stock splits, reorganizations and similar events. In addition, the Company is required to issue two installments of an equity bonus to SOK Partners in the form of common stock valued at the rate of $0.065 per share. In March 2012, the Company issued the first equity bonus to SOK Partners, consisting of 4,615,385 shares of common stock, with a second installment due within five business days after SOK Partners has made aggregate advances under the note of at least $300,000. In May 2012 the Company issued the second installment consisting of 4,615,385 shares of common stock subsequent to SOK Partners surpassing the aggregate advances of $300,000. Until the maturity date of the note, if the Company obtains financing from any other source without the consent of SOK Partners, then the Company is required to issue additional bonus equity in an amount equal to $600,000 less the aggregate advances on the note made prior to the breach.

As long as any amount payable under the note remains outstanding, SOK Partners or its designee is entitled to appoint a new member to the Company's Board of Directors, who will be appointed upon request. Mr. Koenigsberger was appointed to the Board by SOK Partners on June 25, 2012.

On March 28, 2012, the Company signed an Amended and Restated Note Purchase Agreement, dated as of December 20, 2011, with Dr. Samuel Herschkowitz (as amended, the "Herschkowitz Purchase Agreement"). Pursuant to the Herschkowitz Purchase Agreement, the Company issued a 20.0% convertible note due June 20, 2012 in the principal amount of $240,000 for previous advances under the note. The Company's obligations under the note are secured by the grant of a security interest in substantially all tangible and intangible assets of the Company. The Company has previously issued to Dr. Herschkowitz an equity bonus consisting of 1,546,667 shares of common stock. An additional 7,500,000 shares were transferred to Dr. Herschkowitz effective in April 2012, upon the occurrence of an event of default on the note. Effective August 15, 2012 the Company entered into a settlement and forbearance agreement relating to the defaults under the note and other matters. Among other things, the Company issued 26.5 million shares of common stock to Dr. Herschkowitz and SOK Partners and adjusted the conversion price of the notes held by such parties, in exchange for forbearance from Dr. Herschkowitz asserting his rights as a secured creditor, an extension of the due dates of the notes and other consideration.

As long as any amount payable under the note remains outstanding, Dr. Herschkowitz or his designee is entitled to appoint a special advisor to the Company's Board of Directors, who will be appointed as a member of the Board upon request. Pursuant to this authority, Josh Kornberg was appointed to the Board on March 9, 2012. Mr. Kornberg was appointed the Interim CEO, President and CFO on April 24, 2012. On July 22, 2012 Mr. Kornberg was approved by the Board of Directors as the Company's CEO/President. These notes are included in the current portion of convertible debt on the balance sheet.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
BioDrain Medical, Inc.
Mendota Heights, MN

We have audited the accompanying balance sheets of BioDrain Medical, Inc. (a development stage company) as of December 31, 2011 and 2010 and the related statements of operations, stockholders' deficit and cash flows for the years then ended and for the period from April 23, 2002 (inception), to December 31, 2011. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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. (a development stage company) as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended and from April 23, 2002 (inception) to December 31, 2011, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the company will continue as a going concern. As discussed in Note 1 to the financial statements, the company has incurred losses since inception, has an accumulated deficit and has not received significant revenue from sales of products and services. These factors raise substantial doubt about its ability to continue as a going concern. Managements' plan in regard to these matters are also described in Note 1. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Olsen Thielen & Co., Ltd.
St. Paul, Minnesota
April 16, 2012

BIODRAIN MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
BALANCE SHEETS

	December 31, 2011	December 31, 2010
ASSETS		
Current Assets:		
Cash	$ 122,985	$ 9,383
Accounts receivable	50,294	-
Inventories	97,605	-
Prepaid expense and other assets	30,148	8,126
Total Current Assets	301,032	17,509
Fixed assets, net	4,600	6,831
Intangibles, net	140,588	141,532
Total Assets	$ 446,220	$ 165,872
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Current portion of long-term debt (See Note 8)	$ -	$ 10,267
Current portion of convertible debt, net of discounts of $28,741 and $0 (See Notes 6, 7 and 8)	1,055,559	56,000
Accounts payable	731,135	768,720
Accrued expenses	566,574	498,707
Total Current Liabilities	2,353,268	1,333,694
Long-term debt and convertible debt, net of discounts of $16,446 and $109,310 (See Note 8)	630,153	1,006,789
Liability for equity-linked financial instruments (See Note 10)	166,063	14,946
Stockholders' Deficit:		
Common stock, $.01 par value, 200,000,000 authorized, 32,074,000 and 14,002,290 outstanding	320,740	140,023
Additional paid-in capital	8,844,952	5,052,497
Deficit accumulated during development stage	(11,868,956)	(7,382,077)
Total Stockholders' Deficit	(2,703,264)	(2,189,557)
Total Liabilities and Stockholders' Deficit	$ 446,220	$ 165,872

See Notes to Financial Statements

BIODRAIN MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF OPERATIONS

	Year Ended December 31, 2011	Year Ended December 31, 2010	Period From April 23, 2002 (Inception) To December 31, 2011
Revenue	$ 96,637	$ 288	$ 112,662
Cost of goods sold	56,080	140	63,220
Gross margin	40,557	148	49,442
General and administrative expense	3,561,566	1,874,465	9,464,458
Operations expense	351,662	276,998	1,529,534
Sales and marketing expense	232,716	199,593	888,485
Interest expense	230,374	147,093	667,107
Loss (gain) on valuation of equity-linked financial instruments	151,118	(1,145,292)	(631,186)
Total expense	4,527,436	1,352,857	11,918,398
Net loss available to common shareholders	$ (4,486,879)	$ (1,352,709)	$ (11,868,956)
Loss per common share - basic and diluted	$ (0.18)	$ (0.11)	$ (2.04)
Weighted average shares used in computation - basic and diluted	24,282,433	12,771,683	5,820,397

See Notes to Financial Statements

BIODRAIN MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF STOCKHOLDERS' DEFICIT
PERIOD FROM APRIL 23, 2002 (INCEPTION)
To December 31, 2011

	Shares	Amount	Paid-in Capital	Deficit	Total
Issuance of common stock 9/1/02, $.0167 (1)	598,549	$ 5,985	$ 4,015	$ -	$ 10,000
					-
Issuance of common 10/23/02, $1.67/share	2,993	30	4,970		5,000
Net loss				(51,057)	(51,057)
Balance 12/31/02	601,542	$ 6,015	$ 8,985	$ (51,057)	$ (36,057)
Issuance of common 2/12/03, $.0167 (2)	23,942	239	161		400
Issuance of common 6/11&12,$1.67 (3)	21,548	216	34,784		35,000
Net loss				(90,461)	(90,461)
Balance 12/31/03	647,032	$ 6,470	$ 43,930	$ (141,518)	$ (91,118)
Issuance of common 5/25/04, $.0167 (4)	6,567	66	44		110
Net loss				(90,353)	(90,353)
Balance 12/31/04	653,599	$ 6,536	$ 43,974	$ (231,871)	$ (181,361)
Issuance of common 12/14/05, $.0167 (5)	14,964	150	100		250
Vested stock options and warrants			2,793		2,793
Net loss				(123,852)	(123,852)
Balance 12/31/05	668,563	$ 6,686	$ 46,867	$ (355,723)	$ (302,170)
Issuance of common 5/16 & 8/8, $.0167 (6)	86,869	869	582		1,451
Issuance of common 10/19 & 23, $.0167 (7)	38,906	389	261		650
Issuance of common 12/01, $1.67 (8)	28,739	287	44,523		44,810
Vested stock options and warrants			13,644		13,644
Net loss				(273,026)	(273,026)
Balance 12/31/06	823,077	$ 8,231	$ 105,877	$ (628,749)	$ (514,641)
Issuance of common 1/30/07 @ 1.67 (9)	599	6	994		1,000
Value of equity instruments issued with debt			132,938		132,938
Capital contributions resulting from waivers of debt			346,714		346,714
Vested stock options and warrants			73,907		73,907
Net loss				(752,415)	(752,415)
Balance 12/31/07	823,676	$ 8,237	$ 660,430	$ (1,381,164)	$ (712,497)
Issuance of common 6/11 to 9/30, $.35 (10)	4,552,862	45,528	1,547,974		1,593,502
Shares issued to finders, agents	2,012,690	20,127	(20,127)		-
Shares issued to pay direct legal fees	285,714	2,857	(2,857)		
Issuance of common due to antidilution provisions	205,899	2,059	(2,059)		-
Shares issued to pay investor relations services 6/23/08, $.35	250,000	2,500	85,000		87,500
Vested stock options and warrants			354,994		354,994
Capital contributions resulting from waivers of debt			129,684		129,684
Net loss				(1,762,628)	(1,762,628)
Balance 12/31/08	8,130,841	$ 81,308	$ 2,753,039	$ (3,143,792)	$ (309,445)
Cumulative effect of adoption of EITF 07-5			(486,564)	6,654	(479,910)
Vested stock options and warrants			111,835		111,835
Shares issued 3/20/09 to pay for fund raising	125,000	1,250	(1,250)		-
Shares issued under PMM in April 2009, $.50	700,000	7,000	343,000		350,000
Shares issued under PPM in May 2009, $.50	220,000	2,200	107,800		110,000
Shares issued under PPM in June 2009, $.50	50,000	500	24,500		25,000
Shares issued under PPM in August 2009, $.50	80,000	800	39,200		40,000
Shares issued under PPM in September 2009, $.50	150,000	1,500	73,500		75,000
Shares issued to directors, management and consultant in August 2009, $.50	797,810	7,978	390,927		398,905
Shares issued to finder in September 2009, $.50	100,000	1,000	49,000		50,000
Capital contributions resulting from waivers of debt			84,600		84,600
Value of equity-linked financial instruments issued in connection with PPMs			(222,296)		(222,296)
Value of equity instruments issued with debt			30,150		30,150
Shares issued to consultant for fund raising	30,000	300	(300)		-
Shares issued under PPM in November 2009, $.50	50,000	500	24,500		25,000
Shares issued upon conversion of debt and interest, $.27	935,446	9,354	247,100		256,454
Shares issued upon conversion of shareholder note, $.35	14,024	140	4,766		4,906

Net loss				(2,892,230)	(2,892,230)
Balance 12/31/09	11,383,121	$ 113,830	$ 3,573,507	$ (6,029,368)	$ (2,342,030)
Shares issued in March 2010 under PPM, $.50	174,550	1,746	85,529		87,275
Shares issued to consultants for IR and consulting, $.50	374,090	3,741	183,304		187,045
Value of equity instruments issued for consulting services			354,602		354,602
Vested stock options and warrants			11,382		11,382
Value of equity-linked financial instruments issued in connection with PPM in first quarter			(25,553)		(25,553)
Shares issued in April 2010 under PPM, $.50	180,000	1,800	88,200		90,000
Shares issued in May 2010 to consultant, $.50	12,850	129	6,296		6,425
Shares issued in May 2010 to 2008 investors as a penalty for late registration of 4,552,862 shares, $.50	710,248	7,102	348,022		355,124
Value of equity instruments issued with debt			119,474		119,474
Value of equity-linked financial instruments issued in connection with PPM in second quarter			(31,332)		(31,332)
Value of equity-linked financial instruments issued in connection with PPM in third quarter			(31,506)		(31,506)
Shares issued in September 2010 under PPM, $.10	250,000	2,500	22,500		25,000
Shares issued to consultants in third quarter at $.22 per share	488,860	4,889	102,660		107,549
Shares issued in November 2010 upon exercise of warrants at $.135 per share	128,571	1,286	16,071		17,357
Shares issued in November 2010 to directors as compensation at $.15 per share	300,000	3,000	42,000		45,000
Vested stock options in fourth quarter			161,107		161,107
Equity instruments issued to consultants in fourth quarter			26,234		26,234
Net loss				(1,352,709)	(1,352,709)
Balance 12/31/2010	14,002,290	$ 140,023	$ 5,052,497	$ (7,382,077)	$ (2,189,557)
Value of equity instruments issued with debt in first quarter			47,908		47,908
Shares issued in first quarter at $.075 per share under PPM	5,333,334	53,334	346,666		400,000
Shares issued in first quarter at $.085 per share under PPM	1,294,117	12,941	97,059		110,000
Shares issued in first quarter at $.09 per share under PPM	200,000	2,000	16,000		18,000
Shares issued in first quarter at $.10 per share under PPM	150,000	1,500	13,500		15,000
Vested stock options and warrants in first quarter			268,549		268,549
Equity instruments issued to consultants in first quarter			91,504		91,504
Stock issued upon conversion of debt in first quarter	416,010	4,160	15,840		20,000
Stock issued to pay interest on debt in second quarter	158,036	1,580	20,920		22,500
Shares issued in second quarter at $.085 per share under PPM	588,236	5,882	44,118		50,000
Shares issued in second quarter at $.07 per share under PPM	500,000	5,000	30,000		35,000
Stock issued upon conversion of debt and interest	941,034	9,410	22,590		32,000
Vested stock options and warrants in second quarter			82,463		82,463
Equity instruments issued to consultants in second quarter			12,256		12,256
Vested stock options and warrants in third quarter			1,357,494		1,357,494
Equity instruments issued to consultants in third quarter			147,116		147,116
Restricted stock issued to consultants in third quarter	822,842	8,228	46,772		55,000
Shares issued in third quarter at $.06 per share under PPM	3,500,000	35,000	175,000		210,000
Shares issued in third quarter at $.07 per share under PPM	571,429	5,715	34,285		40,000
Shares issued in third quarter at $.20 per share under PPM	562,500	5,625	106,875		112,500
Shares issued upon exercise of stock options at $.01	100,000	1,000			1,000
Shares issued in fourth quarter at $.35 per share IR compensation	575,000	5,750	195,500		201,250
Shares issued in fourth quarter at $.20 per share under PPM	812,500	8,125	154,375		162,500
Equity instruments upon conversion of Accounts Payable in first quarter			20,000		20,000
Vested stock options and warrants in fourth quarter			229,132		229,132
Shares issued to private investor in fourth quarter at $.15 per share	1,546,667	15,467	216,533		232,000
Net loss				(4,486,879)	(4,486,879)
Balance 12/31/2011	32,074,000	$ 320,740	$ 8,844,952	$ (1,868,956)	$ (2,703,264)

(1) Founders shares, 1,000,000 pre-split
(2) 23,492 (40,000 pre-split) shares valued at $.0167 per share as compensation for loan guarantees by management
(3) Investment including 670 shares issued as a 10% finder's fee
(4) For payment of patent legal fees
(5) Compensation for loan guarantees by management
(6) For vendor contractual consideration
(7) Employment agreements
(8) Investment
(9) Conversion of convertible notes by management
(10) Investment, "October 2008 financing".

See Notes to Financial Statements

BIODRAIN MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2011	Year Ended December 31, 2010	April 23, 2002 (Inception) To December 31, 2011
Cash flow from operating activities:			
Net loss	$ (4,486,879)	$ (1,352,709)	$ (11,868,956)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	3,175	2,429	9,565
Vested stock options and warrants	1,937,638	172,489	2,667,300
Equity instruments issued for management and consulting	507,126	726,854	1,869,940
Stock-based registration payments	-	-	355,124
Capital contributions resulting from waivers of debt	-	-	476,398
Amortization of debt discount	112,031	55,037	285,284
(Gain) loss on valuation of equity-linked instruments	151,118	(1,145,292)	(631,186)
Changes in assets and liabilities:			
Accounts receivable	(50,294))	15,737	(50,294)
Inventories	(97,605)	-	(97,605)
Prepaid expense and other assets	(22,022)	(4,325)	(30,148)
Notes payable to shareholders	-	-	(14,957)
Accounts payable	71,714	411,883	1,297,735
Accrued expenses	92,367	297,216	678,434
Net cash used in operating activities:	(1,781,631)	(820,681)	(5,053,366)
Cash flow from investing activities:			
Purchase of fixed assets	-	-	(12,258)
Purchase of intangibles	-	-	(142,495)
Net cash used in investing activities	-	-	(154,753)
Cash flow from financing activities:			
Proceeds from long-term and convertible debt	525,500	604,800	1,583,966
Repayment of convertible debt	-	(100,000)	(100,000)
Principal payments on long-term debt	(16,267)	(14,334)	(75,667)
Restricted cash in escrow	-	103,333	-
Issuance of common stock	1,386,000	219,632	3,922,805
Net cash provided by (used in) financing activities	1,895,233	813,431	5,331,104
Net increase (decrease) in cash	113,602	(7,249)	122,985
Cash at beginning of period	9,383	16,632	-
Cash at end of period	$ 122,985	$ 9,383	$ 122,985
Non cash transactions:			
Common stock issued for accrued interest	24,500	-	111,860
Conversion of accounts payable to convertible debt	89,300	457,300	546,600
Common stock issued to satisfy debt	50,000	-	224,000
Stock warrant issued to satisfy accounts payable	20,000	-	20,000

See Notes to Financial Statements

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Continuance of Operations

BioDrain Medical, Inc. (the "Company") 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.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has suffered recurring losses from operations and has a stockholders' deficit. These factors raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Management hired an investment banker in 2010 to raise an additional $3 to $5 million in new equity. The banker was unable to raise the expected $500,000 by September 30, 2010 and the balance within three months, but the Company raised approximately $229,000 in equity and $605,000 in convertible debt in 2010 and $1,154,000 in equity and $533,000 in convertible debt in 2011 through alternative means. The Company's April 1, 2009 510(k) clearance from the FDA to authorize the Company to market and sell its FMS products is being received very positively. The Company has a private investor that has committed $300,000 to $600,000 in 2012 with potential additional investment subsequent to June 2012.

Recent Accounting Developments

In the first quarter of 2011 we adopted new guidance on separating consideration in multiple-deliverable arrangements. The guidance addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how the consideration should be allocated among the separate units of accounting. The adoption of this guidance did not have a material impact on our financial statements.

We reviewed all other significant newly issued accounting pronouncements and determined they are either not applicable to our business or that no material effect is expected on our financial position and results of our operations.

Valuation of Intangible Assets

We review identifiable intangible assets for impairment in accordance with ASC 360- *Property, Plant and Equipment* ("ASC 360"), whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Our intangible assets are currently solely the costs of obtaining trademarks and patents. Events or changes in circumstances that indicate the carrying amount may not be recoverable include, but are not limited to, a significant change in the medical device marketplace and a significant adverse change in the business climate in which we operate. If such events or changes in circumstances are present, the undiscounted cash flows method is used to determine whether the intangible asset is impaired. Cash flows would include the estimated terminal value of the asset and exclude any interest charges. If the carrying value of the asset exceeds the undiscounted cash flows over the estimated remaining life of the asset, the asset is considered impaired, and the impairment is measured by reducing the carrying value of the asset to its fair value using the discounted cash flows method. The discount rate utilized is based on management's best estimate of the related risks and return at the time the impairment assessment is made.

Our accounting estimates and assumptions bear various risks of change, including the length of the current economic downturn facing the United States, the expansion of the slowdown in consumer spending in the U.S. medical markets despite the early expressed opinions of financial experts that the medical market would not be as affected as other markets and failure to gain acceptance in the medical market.

Accounting Policies and 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.

Presentation of Taxes Collected from Customers

Sales taxes are imposed on the Company's sales to nonexempt customers. The Company collects the taxes from customers and remits the entire amounts to the governmental authorities. The Company's accounting policy is to exclude the taxes collected and remitted from revenues and expenses.

Shipping and Handling

Shipping and handling charges billed to customers are recorded as revenue. Shipping and handling costs are recorded within cost of goods sold on the statement of operations.

Advertising

Advertising costs are expensed as incurred. There were no advertising expenses for 2011 or 2010.

Research and Development

Research and development costs are charged to operations as incurred. Research and development costs were $0 and approximately $10,000 for 2011 and 2010, respectively.

Revenue Recognition

The Company recognizes revenue in accordance with the SEC's Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements*, as amended by Staff Accounting Bulletin No. 104 (together, SAB 101), and ASC 605- *Revenue Recognition*.

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable and collectability is probable. Delivery is considered to have occurred upon either shipment of the product or arrival at its destination based on the shipping terms of the transaction. The Company's standard terms specify that shipment is FOB BioDrain and the Company will, therefore, recognize revenue upon shipment in most cases. This revenue recognition policy applies to shipments of the FMS units as well as shipments of cleaning solution kits. When these conditions are satisfied, the Company recognizes gross product revenue, which is the price it charges generally to its customers for a particular product. Under the Company's standard terms and conditions, there is no provision for installation or acceptance of the product to take place prior to the obligation of the customer. The customer's right of return is limited only to the Company's standard one-year warranty whereby the Company replaces or repairs, at its option, and it would be rare that the FMS unit or significant quantities of cleaning solution kits may be returned. Additionally, since the Company buys both the FMS units and cleaning solution kits from "turnkey" suppliers, the Company would have the right to replacements from the suppliers if this situation should occur.

Receivables

Receivables are reported at the amount the Company expects to collect on balances outstanding. The Company has determined there will be no losses on balances outstanding at December 31, 2011.

Inventories

Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out basis. Inventory balances are as follows:

	December 31, 2011	December 31 , 2010
Finished goods	$ 94,331	$ -
Raw materials	3,274	-
Total	$ 97,605	$ -

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the respective assets. Estimated useful asset life by classification is as follows:

	Years
Computers and office equipment	3
Furniture and fixtures	5

Upon retirement or sale, the cost and related accumulated depreciation are removed from the balance sheet and the resulting gain or loss is reflected in operations. Maintenance and repairs are charged to operations as incurred.

Intangible Assets

Intangible assets consist of trademarks and 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

The Company accounts for income taxes in accordance with ASC 740- *Income Taxes ("ASC 740")*. Under ASC 740, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and net operating loss and credit carryforwards using enacted tax rates in effect for the year in which the differences are expected to impact taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

The Company reviews income tax positions expected to be taken in income tax returns to determine if there are any income tax uncertainties. The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities, based on technical merits of the positions. The Company has identified no income tax uncertainties.

Tax years subsequent to 2007 remain open to examination by federal and state tax authorities.

Patents and Intellectual Property

In June 2008, the Company completed and executed an agreement to secure exclusive ownership of the Company's primary patent from an inventor, Marshall Ryan. Mr. Ryan received a combination of cash and warrants, and he will receive a 4% royalty on STREAMWAY FMS (the Product) sales for the life of the patent. At the signing of the agreement, Mr. Ryan received $75,000 in exchange for the exclusive assignment of the patent. In addition, on June 30, 2009, Mr. Ryan, through his Mid-State Stainless, Inc. entity, was entitled to receive $100,000 as payment (currently recorded as an account payable with the Company) for past research and development activities. Should Mr. Ryan be utilized in the future for additional product development activities, he will be compensated at a rate of $95.00 per hour.

Mr. Ryan also received a warrant, with immediate vesting, to purchase 150,000 shares of the Company's common stock at a price of $.35 per share. The warrant has a five-year term ending on June 30, 2013 and was assigned a value of $28,060 using a Black-Scholes formula. This amount was expensed as consulting expense in 2008 using a five-year expected life, a 3.73% risk-free interest rate, an expected 59% volatility and a zero dividend rate. Should there be a change in control of the Company (defined as greater than 50% of the Company's outstanding stock or substantially all of its assets being transferred to one independent person or entity), Mr. Ryan will be owed a total of $2 million to be paid out over the life of the patent if the change in control occurs within 12 months of the first sale of the product; or $1 million to be paid out over the life of the patent if the change in control occurs between 12 and 24 months of the first sale of the product; or $500,000 to be paid out over the life of the patent if the change in control occurs between 24 and 36 months of the first sale of the product. There will be no additional payment if a change in control occurs more than 36 months after the first sale of the product.

Subsequent Events

The Company has evaluated subsequent events through the date of this filing. On March 28, 2012, BioDrain Medical, Inc. (the "Company"), entered into a Convertible Note Purchase Agreement, dated as of March 28, 2012 (the "SOK Purchase Agreement") between the Company and SOK Partners, LLC ("SOK Partners"), an investment partnership. Josh Kornberg, who is a member of the Company's Board of Directors, and Dr. Samuel Herschkowitz are affiliates of the manager of SOK Partners. Pursuant to the SOK Purchase Agreement, the Company issued a 20.0% convertible note due August 2012 in the principal amount of up to $600,000. Principal and accrued interest on the note are due and payable on August 28, 2012. The Company's obligations under the note are secured by the grant of a security interest in substantially all tangible and intangible assets of the Company. The SOK Purchase Agreement and the note include customary events of default that include, among other things, non-payment defaults, covenant defaults, inaccuracy of representations and warranties, cross-defaults to other indebtedness and bankruptcy and insolvency defaults. The occurrence of an event of default could result in the acceleration of the Company's obligations under the note, and interest rate of twenty-four (24%) percent per annum accrues if the note is not paid when due.

On March 28, 2012, the Company received an advance of $84,657 under the note, including a cash advance of $60,000 net of a prepayment of interest on the first $300,000 in advances under the note. The holder of the note is entitled to convert the note into shares of common stock of the Company at an initial conversion price per share of $0.065 per share, subject to adjustment in the event of (1) certain issuances of common stock or convertible securities at a price lower than the conversion price of the note, and (2) recapitalizations, stock splits, reorganizations and similar events. In addition, the Company is required to issue two installments of an equity bonus to SOK Partners in the form of common stock valued at the rate of $0.065 per share. In April 2012, the Company issued the first equity bonus to SOK Partners, consisting of 4,615,385 shares of common stock, with a second installment due within five business days after SOK Partners has made aggregate advances under the note of at least $300,000. Until the maturity date of the note, if the Company obtains financing from any other source without the consent of SOK Partners, then the Company is required to issue additional bonus equity in an amount equal to $600,000 less the aggregate advances on the note made prior to the breach.

As long as any amount payable under the note remains outstanding, SOK Partners or its designee is entitled to appoint a special advisor to the Company's Board of Directors, who will be appointed as a member of the Board upon request.

The foregoing description does not purport to be complete and is qualified in its entirety by the terms and conditions of the SOK Purchase Agreement, including the form of note, which is filed as an exhibit to this Annual Report on Form 10-K.

On March 28, 2012, the Company signed an Amended and Restated Note Purchase Agreement, dated as of December 20, 2011, with Dr. Samuel Herschkowitz (as amended, the "Herschkowitz Purchase Agreement"). Pursuant to the Herschkowitz Purchase Agreement, the Company issued a 20.0% convertible note due June 20, 2012 in the principal amount of $240,000 for previous advances under the note. The Company's obligations under the note are secured by the grant of a security interest in substantially all tangible and intangible assets of the Company. The Company has previously issued to Dr. Herschkowitz an equity bonus consisting of 1,546,667 shares of common stock. An additional 7,500,000 shares are required to be transferred to Dr. Herschkowitz upon the occurrence of an event of default on the note.

As long as any amount payable under the note remains outstanding, Dr. Herschkowitz or his designee is entitled to appoint a special advisor to the Company's Board of Directors, who will be appointed as a member of the Board upon request. Pursuant to this authority, Josh Kornberg was appointed to the Board on March 9, 2012. The Company does not believe there are other subsequent events that require disclosure.

Subsequent to year end an institutional investor converted $92,000 of Convertible Debt to 1,647,048 shares of common stock

Reclassifications

Certain amounts in the prior period's financial statements have been reclassified to conform with the 2011 presentation. These reclassifications had no effect on the net loss or stockholders' deficit for any period.

NOTE 2 – DEVELOPMENT STAGE OPERATIONS

The Company was formed April 23, 2002. Since inception through December 31, 2011, 32,074,000 shares of common stock have been issued between par value and $1.67. Operations since incorporation have primarily been devoted to raising capital, obtaining financing, development of the Company's product, and administrative services.

NOTE 3 – STOCKHOLDERS' DEFICIT, STOCK OPTIONS AND WARRANTS

In connection with the financing completed in October 2008, the Company has effected two reverse stock splits, one on June 6, 2008 and another on October 20, 2008. In accordance with SAB Topic 4C, all stock options and warrants and their related exercise prices are stated at their post-reverse stock split values.

The Company has an equity incentive plan, which allows issuance of 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 ranging from three to ten years.

Accounting for share-based payment

The Company has adopted ASC 718- *Compensation-Stock Compensation* ("ASC 718"). Under ASC 718 stock-based employee compensation cost is recognized using the fair value based method for all new awards granted after January 1, 2006 and unvested awards outstanding at January 1, 2006. Compensation costs for unvested stock options and non-vested awards that were outstanding at January 1, 2006, are being recognized over the requisite service period based on the grant-date fair value of those options and awards, using a straight-line method. We elected the modified-prospective method under which prior periods are not retroactively restated.

ASC 718 requires companies to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model or other acceptable means. The Company uses the Black-Scholes option valuation model which requires the input of significant assumptions including an estimate of the average period of time employees will retain vested stock options before exercising them, the estimated volatility of the Company's common stock price over the expected term, the number of options that will ultimately be forfeited before completing vesting requirements, the expected dividend rate and the risk-free interest rate. Changes in the assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related expense recognized. The assumptions the Company uses in calculating the fair value of stock-based payment awards represent the Company's best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and the Company uses different assumptions, the Company's equity-based compensation expense could be materially different in the future.

Since the Company's common stock has no significant public trading history, and the Company has experienced no significant option exercises in its history, the Company is required to take an alternative approach to estimating future volatility and estimated life and the future results could vary significantly from the Company's estimates. The Company compiled historical volatilities over a period of 2 to 7 years of 15 small-cap medical companies traded on major exchanges and 10 mid-range medical companies on the OTC Bulletin Board and combined the results using a weighted average approach. In the case of ordinary options to employees the Company determined the expected life to be the midpoint between the vesting term and the legal term. In the case of options or warrants granted to non-employees, the Company estimated the life to be the legal term unless there was a compelling reason to make it shorter.

When an option or warrant is granted in place of cash compensation for services, the Company deems the value of the service rendered to be the value of the option or warrant. In most cases, however, an option or warrant is granted in addition to other forms of compensation and its separate value is difficult to determine without utilizing an option pricing model. For that reason the Company also uses the Black-Scholes option-pricing model to value options and warrants granted to non-employees, which requires the input of significant assumptions including an estimate of the average period the investors or consultants will retain vested stock options and warrants before exercising them, the estimated volatility of the Company's common stock price over the expected term, the number of options and warrants that will ultimately be forfeited before completing vesting requirements, the expected dividend rate and the risk-free interest rate. Changes in the assumptions can materially affect the estimate of fair value of stock-based consulting and/or compensation and, consequently, the related expense recognized.

Since the Company has limited trading history in its stock and no first-hand experience with how its investors and consultants have acted in similar circumstances, the assumptions the Company uses in calculating the fair value of stock-based payment awards represent its best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and the Company uses different assumptions, the Company's equity-based consulting and interest expense could be materially different in the future.

Valuation and accounting for options and warrants

The Company determines the grant date fair value of options and warrants using a Black-Scholes option valuation model based upon assumptions regarding risk-free interest rate, expected dividend rate, volatility and estimated term. For grants issued during 2008, the Company used a 2.0 to 4.5% risk-free interest rate, 0% dividend rate, 53-66% volatility and estimated term of 2.5 to 7.5 years. Values computed using these assumptions ranged from $.102 per share to $.336 per share. Warrants or options awarded for services rendered are expensed over the period of service (normally the vesting period) as compensation expense for employees or an appropriate consulting expense category for awards to consultants and directors. Warrants granted in connection with a common equity financing are included in stockholders' equity, provided that there is no re-pricing provision that requires them to be treated as a liability (See Note 10) and warrants granted in connection with a debt financing are treated as a debt discount and amortized using the interest method as interest expense over the term of the debt.

Warrants issued in connection with the $100,000 convertible debt that closed March 1, 2007 created a debt discount of $40,242 that is being amortized as additional interest over its 5-year term. Warrants issued in connection with the $170,000 convertible “bridge” debt that closed in July 2007 created a calculated debt discount of $92,700 that was fully expensed over its loan term that matured April 30, 2008.

The Company issued $100,000 in convertible debt in October 2009 and issued a warrant, in connection with the debt, for 200,000 shares of common stock at $.65 per share. The Company determined that the warrant had an initial value of $30,150 that was treated as a debt discount and amortized as additional interest expense over the 24-month term of the note.

The Company also issued $200,000 in convertible debt in June 2010 and issued a warrant, in connection with the debt, to purchase 1,111,112 shares of common stock at $.46 per share. The Company determined that the value of the June 2010 warrant is $96,613.This value is treated as a debt discount and amortized as additional interest expense over the 22-month term of the note.

The Company also issued $32,000 in convertible debt in September 2010 and issued a warrant to purchase 320,000 shares of common stock at $.18 per share. The Company determined that this warrant has a value of $15,553 that was treated as a debt discount and amortized as additional interest expense over the 18-month term of the note.

The Company also issued $16,800 in convertible debt in December 2010 and issued a warrant to purchase 200,000 shares of common stock at $.084 per share. The Company determined that this warrant has a value of $7,232 that was treated as a debt discount and amortized as additional interest expense over the 24- month term of the note.

In January 2011, the Company issued three convertible notes of $50,000 each and also issued warrants to purchase 1,595,239 common shares at $.20 per share. The value of the warrants was determined to be $47,908 and is being treated as a debt discount and amortized as additional interest expense over the 24-month term of the notes.

For grants of stock options and warrants in 2011 the Company used a 0.34 to 2.44% risk-free interest rate, 0% dividend rate, 54-66% volatility and estimated term of 3 to 10 years. Values computed using these assumptions ranged from $0.0126 to $0.3412 per share.

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	20,950	$ 2.62
Issued	23,942	1.67	71,826	0.85
Outstanding at December 31, 2006	41,898	1.67	92,776	1.25
Issued	5,984	1.67	28,502	0.35
Outstanding at December 31, 2007	47,882	1.67	121,278	1.04
Issued	1,243,292	0.20	5,075,204	0.45
Expired			(11,971)	3.76
Outstanding at December 31, 2008	1,291,174	0.26	5,184,511	0.45
Issued	205,000	0.37	2,188,302	0.65
Outstanding at December 31, 2009	1,496,174	0.27	7,372,813	0.49
Issued	2,210,000	0.17	3,435,662	0.34
Expired	(207,956)	0.43	(8,979)	1.67
Exercised			(128,571)	0.46
Outstanding at December 31, 2010	3,498,218	0.19	10,670,925	0.44
Issued	2,483,334	0.01	18,222,243	0.14
Expired	(83,941)	0.73	(2,010,917)	0.48
Exercised	(100,000)	0.01		
Outstanding at December 31, 2011	5,797,611	$ 0.11	26,882,251	$ 0.23

(1) Adjusted for the reverse stock splits in total at June 6, 2008 and October 20, 2008.

At December 31, 2011, 4,888,660 stock options are fully vested and currently exercisable with a weighted average exercise price of $0.13 and a weighted average remaining term of 9.24 years. There are 26,882,251 warrants that are fully vested and exercisable. Stock-based compensation recognized in 2011 and 2010 was $1,937,638 and $172,489, respectively. The Company has $130,123 of unrecognized compensation expense related to non-vested stock options that are expected to be recognized over a weighted average period of approximately 2 years.

The following summarizes the status of options and warrants outstanding at December 31, 2011:

	Range of Exercise Prices	Shares	Weighted Average Remaining Life
Options:			
$	0.01	2,926,626	8.97
$	0.15	2,060,000	8.60
$	0.35	775,000	1.55
$	0.50	30,000	0.87
$	1.67	5,985	0.87
Total		5,797,611	
Warrants:			
$	0.01	200,000	3.94
$	0.02	71,826	2.45
$	0.075	4,657,745	2.52
$	0.10	2,328,572	1.93
$	0.12	500,000	2.33
$	0.13	631,429	1.78
$	0.15	5,333,334	2.16
$	0.16	500,000	2.27
$	0.17	1,882,353	2.27
$	0.18	200,000	2.11
$	0.20	2,445,239	2.05
$	0.25	1,375,000	2.74
$	0.35	998,597	0.49
$	0.46	4,028,606	0.95
$	0.65	1,729,550	0.66
Total		26,882,251	

Stock options and warrants expire on various dates from February 2012 to July 2021.

Under the terms of the Company's agreement with investors in the October 2008 financing, 1,920,000 shares of common stock were the maximum number of shares allocated to the Company's existing shareholders at the time of the offering (also referred to as the original shareholders or the "Founders"). Since the total of the Company's fully diluted shares of common stock was greater than 1,920,000 shares, in order for the Company to proceed with the offering, the Board of Directors approved a reverse stock split of 1-for-1.2545. After this split was approved, additional options and warrants were identified, requiring a second reverse stock split in order to reach the 1,920,000 shares. The second reverse stock split on the reduced 1-for-1.2545 balance was determined to be 1-for-1.33176963. Taken together, if only one reverse stock split was performed, the number would have been a reverse stock split of 1-for-1.670705.

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

On October 20, 2008, the Board of Directors (i) approved the 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 arrive at 11,970,994 shares and (ii) approved a resolution to increase the number of authorized shares of the Company's common stock from 11,970,994 to 40,000,000, which was approved by the Company’s shareholders holding a majority of the shares entitled to vote thereon at a special meeting of shareholders held on December 3, 2008.

The shareholders approved an increase in authorized shares to 80 million shares in an annual shareholder meeting held on June 22, 2010 and approved an increase in authorized shares to 200 million shares in a special shareholder meeting held on September 7, 2011.

Stock Options and Warrants Granted by the Company

The following table is the listing of stock options and warrants as of December 31, 2011 by year of grant:

Stock Options:

Year	Shares	Price
2006	-	$ -
2007	5,985	1.67
2008	1,243,292	.01-.35
2009	105,000	.35-.50
2010	2,060,000	.15
2011	2,383,334	.01
Total	5,797,611	$ .01-1.67

Warrants:

Year	Shares	Price
2006	35,913	$ .02
2007	28,502	.35
2008	2,971,629	.02-.46
2009	2,188,302	.13-.65
2010	3,435,662	.01-.65
2011	18,222,243	.075-.25
Total	26,882,251	$ .01-1.67

NOTE 4 - LOSS PER SHARE

The following table presents the shares used in the basic and diluted loss per common share computations:

	Year Ended December 31, 2011	Year Ended December 31, 2010	From April 23, 2002 (Inception) To December 31, 2011
Numerator:			
Net loss available in basic and diluted calculation	$ (4,486,879)	$ (1,352,709)	$ (11,868,956)
Denominator:			
Weighted average common shares outstanding-basic	24,282,433	12,771,683	5,805,714
Effect of dilutive stock options and warrants (1)	-	-	-
Weighted average common shares outstanding-diluted	24,282,433	12,771,683	5,805,714
Loss per common share-basic and diluted	$ (0.18)	$ (0.11)	$ (2.04)

(1) The number of shares underlying options and warrants outstanding as of December 31, 2011 and December 31, 2010 are 32,679,862 and 14,169,143, respectively. The effect of the shares that would be issued upon exercise of such options and warrants has been excluded from the calculation of diluted loss per share because those shares are anti-dilutive.

NOTE 5 – INCOME TAXES

The provision for income taxes consists of an amount for taxes currently payable and a provision for tax consequences deferred to future periods. 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.

There is no income tax provision in the accompanying statements of operations due to the cumulative operating losses that indicate a 100% valuation allowance for the deferred tax assets and state income taxes is appropriate.

Federal and state income tax return operating loss carryovers as of December 31, 2011, were approximately $11,254,000 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, 2011 and December 31, 2010 are as follows:

	December 31, 2011	December 31 , 2010
Deferred Tax Asset:		
Net Operating Loss	$ 2,626,000	$ 1,579,000
Other	49,000	56,000
Total Deferred Tax Asset	2,675,000	1,635,000
Less Valuation Allowance	2,675,000	1,635,000
Net Deferred Income Taxes	$ —	$ —

NOTE 6 – CONVERTIBLE DEBENTURE

The Company issued a convertible debenture to Andcor Companies, Inc. (“Andcor”) with principal of $10,000 and interest at 10.25% that originally matured in 2007. The debenture is convertible into shares of the Company’s common stock at the lower of $0.90 per share or the price per share at which the next equity financing agreement is completed, and is now re-set to $0.35 per share. The convertible debenture has not yet been paid, but the maturity of the note was extended, in May 2010, to March 31, 2012.

NOTE 7 – NOTES PAYABLE

On December 20, 2011, the Company signed a Note Purchase Agreement, with Dr. Samuel Herschkowitz. Pursuant to this agreement, Dr. Herschkowitz purchased a 20.0% note due June 20, 2012 in the principal amount of $225,000. The Company’s obligations under the note are secured by the grant of a security interest in substantially all tangible and intangible assets of the Company. The Company issued to Dr. Herschkowitz an equity bonus consisting of 1,546,667 shares of common stock. An additional 7,500,000 shares are required to be transferred to Dr. Herschkowitz upon the occurrence of an event of default on the note.

As long as any amount payable under the note remains outstanding, Dr. Herschkowitz or his designee is entitled to appoint a special advisor to the Company’s Board of Directors, who will be appointed as a member of the Board upon request. Pursuant to this authority, Josh Kornberg was appointed to the Board on March 9, 2012.

NOTE 8 – LONG-TERM DEBT

Long-term debt is as follows:

	December 31, 2011	December 31, 2010
Note payable to bank in monthly installments of $1,275/including variable interest at 2% above the prevailing prime rate (3.25% at December 31, 2010). The final payment under the note was made in September 2011. The note was personally guaranteed by former executives of the Company.	$ —	$ 10,267
Notes payable to two individuals, net of discounts of $1,341 and $9,390 with interest only payments at 12% to March 2012 when the remaining balance is payable. The notes are convertible into 285,715 shares of common stock in the Company at $.35 per share.	98,659	90,610
Note payable issued on October 26, 2009 to the parents of one of the Company's directors, net of a discount of $0 and $12,360 discount, with interest at 8% to March 31, 2012 when the remaining balance is payable and convertible into shares of common stock at $.35 per share.	100,000	87,640
Notes payable issued to two individuals in January 2010. The notes bear interest at 8%, mature March 31, 2012 and are convertible into shares of common stock at 50% of the weighted average closing bid price over any 10 consecutive days of trading.	100,000	100,000
Note payable issued on June 12, 2010 to the parents of one of the Company's directors, net of a discount of $14,931 and $67,629. The note bears interest at 12% to March 31, 2012 when the remaining balance is payable, and is convertible into shares of common stock at $.18 per share.	185,069	132,371
Note payable issued on August 2, 2010 to an institutional investor. The note accrued interest at 8%, matured May 4, 2011 and was convertible into shares of common stock at 50% of the average of the three lowest closing prices in any 10 day trading period. $20,000 was converted in the three months ended March 31, 2011 and $30,000, plus accrued interest, was converted in the three months ended June 30, 2011.	—	50,000
Note payable issued on June 14, 2011 to an institutional investor. The note bears interest at 8%, matures June 14, 2012 and is convertible into shares of common stock at 55% of the average of the five lowest closing prices in any 10 day trading period.	63,000	—
Note payable issued on July 12, 2011 to an institutional investor. The note bears interest at 8%, matures April 16, 2012 and is convertible into shares of common stock at 60% of the average of the five lowest closing prices in any 10 day trading period.	37,500	—
Note payable issued on September 16, 2010 to an institutional investor. The note bears interest at 10%, matures March 15, 2012 and is convertible into shares of common stock at $.18 per share.	100,000	100,000
Note payable issued on December 23, 2010 to the parents of one of the Company's directors, net of a discount of $4,960 and $7,229. The note bears interest at 10%, matures December 23, 2012 and is convertible into shares of common stock at $.084 per share.	11,840	9,571
Note payable issued on December 31, 2010 to a law firm that accepted this note in full payment of their past due legal fees. The note bears interest at 6%, matures December 31, 2014 and is convertible into shares of common stock at $.15 per share.	457,300	457,300
Note payable issued on December 23, 2010 to a private investor. The note matured April 30, 2011, is paid, and accrued interest at 10%.	-	6,000
Note payable issued on September 21, 2010 to the parents of one of the Company's directors, net of a discount of $0 and $12,702. The note bears interest at 12%, matures March 30, 2012 and is convertible into shares of common stock at $.18 per share.	32,000	19,298
Notes payable issued in January 2011 to three individuals, net of a debt discount of $23,954. The notes bear interest at 10%, have a 24-month term and are convertible into shares of common stock at $0.084 to $0.10 per share.	126,046	—
Note payable issued January 1, 2011 to a law firm that accepted this note in full payment of their past due legal fees. The note bears interest at 6%, matures January 1, 2015 and is convertible into shares of common stock at $.15 per share.	89,300	—
On November 18, 2011 the Company issued a convertible note with an institutional investor at 8% interest convertible into common stock at 60% of the average of the five lowest closing prices in any ten day trading period. The note matures on August 21, 2012.	50,000	—
Total	1,450,714	1,063,056
Less amount due within one year	820,561	66,267
Long-Term Debt	$ 630,153	$ 996,789

Cash payments for interest were $280 and $967 for 2011 and 2010, respectively.

Principal payments required during the years 2012 to 2015 are as follows:

2012	$	1,084,300
2013	$	100,000
2014	$	457,300
2015	$	89,300

NOTE 9 – RENT OBLIGATION

The Company leases its principal office under a non-cancelable lease that extends five years and expires October 2013. In addition to rent, the Company pays real estate taxes and repairs and maintenance on the leased property. Rent expense was $49,975 and $49,863 for 2011 and 2010, respectively.

The Company's rent obligation for the years 2012 and 2013 is as follows:

2012	$	31,000
2013	$	26,000

NOTE 10 – LIABILITY FOR EQUITY-LINKED FINANCIAL INSTRUMENTS

The Company adopted ASC 815- *Derivatives and Hedging* ("ASC 815") on January 1, 2009. ASC 815 mandates a two-step process for evaluating whether an equity-linked financial instrument or embedded feature is indexed to the entity's own stock. It was effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, which was the Company's first quarter of 2009. Many of the warrants issued by the Company contain a strike price adjustment feature, which upon adoption of ASC 815, changed the classification (from equity to liability) and the related accounting for warrants with a $479,910 estimated fair value of as of January 1, 2009. An adjustment was made to remove $486,564 from paid-in capital (the cumulative values of the warrants on their grant dates), a positive adjustment of $6,654 was made to accumulated deficit, representing the gain on valuation from the grant date to January 1, 2009, and $479,910 was booked as a liability. The warrants issued in 2011 do not contain a strike price adjustment feature and, therefore, are not treated as a liability.

The January 1, 2009 valuation was computed using the Black-Scholes valuation model based upon a 2.5-year expected term, an expected volatility of 63%, an exercise price of $.46 per share, a stock price of $.35, a zero dividend rate and a 1.37% risk free interest rate. Subsequent to January 1, 2009 these warrants were re-valued at the end of each quarter and a gain or loss was recorded based upon their increase or decrease in value during the quarter. Likewise, new warrants that were issued during 2009 and 2010 were valued, using the Black-Scholes valuation model on their date of grant and an entry was made to reduce paid-in capital and increase the liability for equity-linked financial instruments. These warrants were also re-valued at the end of each quarter based upon their expected life, the stock price, the exercise price, assumed dividend rate, expected volatility and risk free interest rate. A significant reduction in the liability was realized in 2010 primarily due to a reduction from $.50 to $.22 per share in the underlying stock price. The Company realized a slight increase in the liability for existing warrants during the first quarter of 2011 primarily due to a reduction in the spread between the exercise price and the market price of the underlying shares, additionally, there was an increase in the liability due to the extension of some existing warrants.

The inputs to the Black-Scholes model during 2009, 2010 and 2011 were as follows:

Stock price	$ .08 to $.50
Exercise price	$ .01 to $.65
Expected life	2.0 to 6.5 years
Expected volatility	54% to 68%
Assumed dividend rate	- %
Risk-free interest rate	.13% to 2.97%

The original valuations, annual gain (loss) and end of year valuations are shown below:

NOTE 11 - RELATED PARTY TRANSACTIONS

	Initial Value	Annual Gain (Loss)	Value at 12/31/09	2010 Gain (Loss)	Value at 12/31/10	2011 Gain (Loss)	Value at 12/31/2011
January 1, 2009 adoption	$ 479,910	$ (390,368)	$ 870,278	$ 868,772	$ 1,506	$ (88,290)	$ 89,796
Warrants issued in quarter ended 6/30/2009	169,854	20,847	149,007	147,403	1,604	(4,689)	6,293
Warrants issued in quarter ended 9/30/2009	39,743	(738)	40,481	40,419	62	(1,562)	1,624
Warrants issued in quarter ended 12/31/2009	12,698	617	12,081	12,053	28	(724)	752
Subtotal	$ 702,205		$ 1,071,847				
Warrants issued in quarter ended 3/31/2010	25,553			25,014	539	(5,571)	6,109
Warrants issued in quarter ended 6/30/2010	31,332			30,740	592	(6,122)	6,714
Warrants issued in quarter ended 9/30/2010	31,506			20,811	10,615	(44,160)	54,775
Total	$ 790,596	$ (369,642)	$ 1,071,847	$ 1,145,292	$ 14,946	$ (151,118)	$ 166,072

The Company entered into agreements, in 2008, with our Chairman of the Board, Lawrence Gadbaw, and in 2009 with board member, Peter Morawetz, to pay Mr. Gadbaw $25,000 and Mr. Morawetz $30,000 upon the Company raising $3 million in new equity. Mr. Gadbaw will also be paid the balance, if any, due under his separation agreement from 2008. This amount was $46,000 upon signing the agreement in 2008, is payable at $2,000 per month, and $12,000 remains in accounts payable as of December 31, 2011. Mr. Morawetz will also receive a stock option for 75,000 shares at $.35 per share and Mr. Gadbaw will receive a stock option for 160,000 shares at $.35 per share upon the Company raising $3 million.

Prospectus dated October 18, 2012

BIODRAIN MEDICAL, INC.

87,703,769 shares of Common Stock

The date of this prospectus is __________, 2012

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the costs and expenses, payable by the registrant in connection with the sale of common stock being registered. All amounts are estimates except the SEC registration fee.

Securities and Exchange Commission registration fee	$	1,059.17
Printing and engraving expenses	$	1,600.00
Blue Sky fees and expenses	$	0.00
Legal fees and expenses	$	15,000.00
Accounting fees and expenses	$	2,000.00
Miscellaneous	$	1340.83
Total	$	21,000.00

ITEM 14. 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 that 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 provide 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.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted for our directors, officers, and controlling persons pursuant to 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.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

The following is a summary of our transactions during the last three years involving sales of our securities that were not registered under the Securities Act:

On February 1, 2009, we entered into an employment agreement with Kirsten Doerfert, Vice President of Sales and Marketing, pursuant to which we granted her an option to purchase 100,000 shares of common stock at $.35 per share with 20,000 shares vested immediately and increments of 20,000 shares vesting upon reaching certain performance milestones. In addition, we granted Ms. Doerfert a warrant, vested immediately, to purchase 15,000 shares of common stock at $.46 per share as compensation for her consulting services prior to becoming an employee.

On March 27, 2009, we issued 125,000 shares of common stock to Cross Street Partners/Morrie Rubin as compensation in connection with raising up to $500,000 in new equity prior to June 30, 2009.

On April 6, 2009, we issued 50,000 shares of common stock and a warrant to purchase 50,000 shares of common stock at $.65 to Russell H. Yaucher for his $25,000 investment in the Company.

On April 14, 2009, we issued 50,000 shares of common stock and a warrant to purchase 50,000 shares of common stock at $.65 to Chad A. and Marianne K. Ruwe for their $25,000 investment in the Company.

On April 20, 2009, we issued 200,000 shares of common stock and a warrant to purchase 200,000 shares of common stock at $.65 to Dean M. and Carol L. Ruwe for their $100,000 investment in the Company.

On April 21, 2009, we issued 200,000 shares of common stock and a warrant to purchase 200,000 shares of common stock at $.65 to Richard J. Butler for his $100,000 investment in the Company.

On April 30, 2009, we issued 200,000 shares of common stock and a warrant to purchase 200,000 shares of common stock at $.65 to James Dauwalter for his $100,000 investment in the Company.

On May 5, 2009, we issued 20,000 shares of common stock and a warrant to purchase 20,000 shares of common stock at $.65 to Gregory B. Graves for his $10,000 investment in the Company.

On May 15, 2009, we entered into an agreement with Peter Morawetz, a co-founder of the Company, a significant shareholder and a member of the Board of Directors, whereby Mr. Morawetz agreed to waive unpaid consulting fees in the amount of $84,600, relating to 2006 and prior years and, in exchange, would receive a cash payment of $30,000 and an option to purchase 75,000 shares of common stock at $.35 per share upon the Company raising an additional $3 million in equity. Mr. Morawetz is not required to participate in any way in the effort to raise $3 million.

On May 21, 2009, we issued 200,000 shares of common stock and a warrant to purchase 200,000 shares of common stock at $.65 to Richard J. Butler for his additional $100,000 investment in the Company.

On June 10, 2009, we issued 50,000 shares of common stock and a warrant to purchase 50,000 shares of common stock to Citigroup FBO John Villas for his $25,000 investment in the Company.

On August 5, 2009, we issued 50,000 shares of common stock and a warrant to purchase 50,000 shares of common stock at $.65 per share to Arnold A. Angeloni for his $25,000 investment in the Company.

On August 18, 2009, we issued 30,000 shares of common stock and a warrant to purchase 30,000 shares of common stock at $.65 per share to Peter G. Kertes for his $15,000 investment in the Company.

On August 24, 2009, we issued restricted shares under the 2008 Equity Incentive Plan to certain management and directors of the Company to reward them for past service and to incentivize them for future service. The shares are subject to forfeiture until the earlier of a Change in Control, as defined in the Plan, attainment of six consecutive quarters of a minimum of $250,000 in net income or attainment of a 30-day average trading volume of not less than 25,000 shares of common stock. The shares will be forfeited to the Company if none of these "acceleration events" occurs by the tenth anniversary of the grant date. The shares granted are as follows:

Peter Morawetz, Director	100,000 shares
Thomas McGoldrick, Director	40,000 shares
Andrew Reding, Director	20,000 shares
Kevin Davidson, Former, President and Chief Executive Officer	300,000 shares
Chad Ruwe, Former, Chief Operating Officer	200,000 shares
Kirsten Doerfert, Former, VP Sales and Marketing	75,000 shares
David Dauwalter, Direct of Product Management	50,000 shares

The value of these shares was determined to be $.50 per share, and the expense for their grant was recorded in August 2009. In addition, on August 24, 2009, we issued 12,810 shares of restricted stock under the 2008 Equity Incentive Plan and a warrant to purchase 18,207 shares of common stock at $.46 per share to Alan Shuler as partial compensation under his consulting arrangement with the Company. The warrant has a term of five years and the shares are subject to forfeiture until the earlier of a Change in Control, as defined in the Plan, attainment of six consecutive quarters of a minimum of $250,000 in net income or attainment of a 30 day average trading volume of not less than 25,000 shares of stock. The shares will be forfeited to the Company if none of these "acceleration events" occurs by the tenth anniversary of the grant date. The value of the warrant was determined to be $4,943 using the Black-Scholes valuation model with an expected term of five years, an expected volatility of 59%, a dividend rate of zero and a risk-free interest rate of 2.5%. The value of the restricted shares was determined to be $6,405 at $.50 per share. These expenses were recorded in August 2009.

On September 8, 2009, we issued 100,000 common shares to a consulting firm for their consulting services.

On September 8, 2009, we issued 10,000 common shares and a warrant to purchase 10,000 shares at $.65 per share to an investor for his $5,000 investment in the Company.

On September 8, 2009, we issued 10,000 common shares and a warrant to purchase 10,000 shares at $.65 per share to an investor for her $5,000 investment in the Company.

On September 25, 2009, we issued 20,000 common shares and a warrant to purchase 20,000 shares at $.65 per share to an investor for her $10,000 investment in the Company.

On September 25, 2009, we issued 30,000 common shares and a warrant to purchase 30,000 shares at $.65 per share to co-investors for their $15,000 investment in the Company.

On September 30, 2009, we issued 80,000 common shares and a warrant to purchase 80,000 shares at $.65 per share to an investor for his $40,000 investment in the Company. On March 5, 2012, the warrants were re-issued at $.13 per share to consultants for their consulting services.

On October 2, 2009, we issued 30,000 common shares and a warrant to purchase 30,000 common shares at $.65 per share to a consultant for their consulting services. On March 5, 2012, the warrants were re-issued at $.13 per share to consultants for their consulting services.

On October 15, 2009, we issued 3,000 common shares and a warrant to purchase 3,000 common shares at $.65 per share to consultants for their consulting services.

On October 15, 2009, we issued 2,000 common shares and a warrant to purchase 2,000 common shares at $.65 per share to a consultant for her consulting services.

On October 26, 2009, we issued a note, convertible into 200,000 common shares, and a warrant to purchase 200,000 shares at $.65 per share to co-investors for their $100,000 investment in the Company.

On November 10, 2009, we issued 50,000 shares of its common stock and a warrant to purchase 50,000 shares of Common Stock at an exercise price of $.65 per share to an investor for his $25,000 investment in the Company.

In January 2010, we issued 19,090 restricted shares of common stock under the 2008 Equity Incentive Plan to a consultant as partial payment for his services.

In March 2010, we issued 350,000 shares of common stock as payment to three consultants for their investor relations consulting services.

In March and April 2010, we issued 274,550 shares of common stock and warrants for 274,550 shares of common stock, at an exercise price of $.65 per share, to 9 investors for their $137,275 investment in the Company.

In April 2010, we raised $90,000 from the sale of 180,000 Units under a private placement at $.50 per Unit. Each Unit consists of one share of common stock and a warrant to purchase one share of common stock at $.65 per share.

In June 2010, we raised $200,000 from the issuance of convertible debt to the parents of one of our officers. The debt bears interest at 12%, is due March 31, 2012 and is convertible into share of common stock at $.25 per share. We also issued a warrant to purchase 800,000 shares at an exercise price of $.46 per share in connection with this debt. The proceeds of this debt were used, in part, to pay off a $100,000 note plus interest and prepayment penalty totaling $43,600 to Asher Enterprises.

In July 2010, we issued 225,000 shares of common stock to four consultants in connection with fundraising and investor relations activities on behalf of the Company.

In July 2010, we issued 13,860 shares of restricted stock under the 2008 Equity Incentive Plan to our acting CFO in partial payment for his consulting services for the quarter ended June 30, 2010.

In July 2010, we issued 238,860 shares of common stock, with a value of $.22 per share, to five consultants in exchange for fund raising, financial consulting and investor relations services.

In August 2010, we issued a $50,000 Convertible Promissory Note to an investor. The note bears interest at 8%, matures in May 2011, and is convertible into shares of common stock at 50% of the average of the three lowest closing prices in any 10 day trading period.

In September 2010, we issued a $100,000 Convertible Promissory Note to an investor. The note bears interest at 10%, matures in March 2012, and is convertible into shares of common stock at $.18 per share.

In September 2010, we issued a $32,000 Convertible Debenture to the parents of one of our officers. The note bears interest at 12%, matures in March 2012 and is convertible into shares of common stock at $.10 per share. We also issued a warrant to purchase 320,000 shares at $.46 per share, amended the note dated in June 2010 to reduce the conversion price from $.25 to $.18 per share and issued a new warrant to purchase 1,111,112 shares at $.46 per share to replace the initial warrant for 800,000 shares at $.46 per share.

In September 2010, we issued 250,000 common shares with a value of $.22 per share to an investment banker as partial compensation for their fund raising activities.

In September 2010, we issued 250,000 common shares to an investor in connection with his $25,000 investment in the Company. We also issued a warrant to purchase 250,000 common shares at $.17 per share. On March 5, 2012, the warrants were re-issued at $.13 per share to consultants for their consulting services.

On November 16, 2010, we issued 75,000 restricted shares, with a value of $.15 per share, to each of four members of the Board of Directors and also issued an option to purchase 85,000 shares at $.15 per share to the Chairman of the Board as compensation for their services on the board.

On January 7, 2011, we issued three convertible notes in the amount of $50,000 each to three individuals who had lent the Company $50,000 each. The notes bear interest at 10%, are convertible into shares of common stock at $.084 to $.10 per share and have a 24 month maturity date. We also issued warrants to purchase 1,595,239 shares of common stock at $.20 per share in connection with this financing arrangement.

On February 7, 2011, we issued 150,000 shares of common stock and a warrant to purchase 150,000 shares of common stock at $.20 per share to an investor in return for his $15,000 investment in the Company.

On February 8, 2011, we issued 200,000 shares of common stock and a warrant to purchase 200,000 shares of common stock at $.20 per share to an investor in return for his $18,000 investment in the Company.

On February 11, 2011, we issued 666,667 shares of common stock and a warrant to purchase 666,667 shares of common stock at $.15 per share to an investor in return for his $50,000 investment in the Company. On March 5, 2012, the warrants were re-issued at $.075 per share to consultants for their consulting services

On February 14, 2011, we issued a warrant to purchase 500,000 shares of common stock at $.15 per share to a consultant in return for their help in arranging financing.

On February 17, 2011, we issued 3,333,334 shares of common stock and a warrant to purchase 3,333,334 shares of common stock at $.15 per share (assigned to an affiliate of the investors) to two investors in return for their $250,000 investment in the Company. On March 5, 2012, the warrants were re-issued at $.075 per share to consultants for their consulting services.

On February 17, 2011, we issued a warrant to purchase 400,000 shares at $.075 per share to a consultant in return for their help in raising funds.

On February 23, 2011, we issued 181,818 shares of common stock as a result of an institutional lender converting $10,000 in debt into shares of common stock at a price determined by a formula in the loan agreement.

On March 3, 2011, we issued a warrant to purchase 100,000 shares at $.10 per share to a consultant for their support in selling the Company's products.

On March 7, 2011, we issued warrants to purchase 600,000 shares of common stock at $.10 per share to three individuals in return for their consulting services.

On March 15, 2011, we issued a warrant to purchase 200,000 shares at $.10 per share to a consultant as a partial payment of his prior executive recruiting services.

On March 15, 2011, we issued 588,235 shares of common stock and a warrant to purchase 588,235 shares of common stock at $.17 per share to an investor in return for his $50,000 investment in the Company.

On March 17, 2011, we issued 416,010 shares of common stock as a result of an institutional lender converting $20,000 in debt into shares of common stock at a price determined by a formula in the loan agreement.

On March 23, 2011, we issued 117,647 shares of common stock and a warrant to purchase 117,647 shares of common stock at $.17 per share to an investor in return for his $10,000 investment in the Company.

On March 23, 2011, we issued 1,333,333 shares of common stock and a warrant to purchase 1,333,333 shares of common stock at $.15 per share to an investor in return for his $100,000 investment in the Company.

On March 25, 2011, we issued a warrant to purchase 100,000 shares of common stock at $.16 per share to a consultant in exchange for investor relations services.

On March 28, 2011, we issued 588,235 shares of common stock and a warrant to purchase 588,235 shares of common stock at $.17 per share to an investor in return for his $50,000 investment in the Company.

On April 14, 2011, we issued 83,333 shares of common stock to the holder of a $100,000 convertible note as payment of prepaid interest as required under terms of the note.

On April 19, 2011, we issued 204,604 shares of common stock as a result of an institutional lender converting $8,000 of debt into shares of common stock at a price determined by a formula in the loan agreement.

On April 21, 2011, we issued 294,118 shares of common stock and a warrant to purchase 294,118 shares at $.17 per share to an investor in return for his $25,000 investment in the Company.

On April 22, 2011, we issued 75,000 shares of common stock to the holder of a $50,000 convertible note as payment of prepaid interest as required under terms of the note.

On May 2, 2011, we issued 294,118 shares of common stock and a warrant to purchase 294,118 shares at $.085 per share to an investor in return for his $25,000 investment in the Company.

On May 16, 2011, we issued 485,437 shares of common stock as a result of an institutional lender converting $15,000 in debt into shares of common stock at a price determined by a formula in the loan agreement

On May 23, 2011, we issued 250,696 shares of common stock as a result of an institutional lender converting $7,000 in debt and $2,000 of accrued interest into shares of common stock at a price determined by a formula in the loan agreement

On May 24, 2011, we issued 500,000 shares of common stock and a warrant to purchase 500,000 shares at $.12 per share to an investor in return for his $35,000 investment in the Company.

On July 1, 2011, we issued 250,000 shares of common stock and a warrant to purchase 250,000 shares at $.075 per share to an investor in return for his $15,000 investment in the Company.

On July 5, 2011 and July 11, 2011, we issued 333,334 total shares of common stock and a warrant to purchase 333,334 shares at $.075 per share to an investor in return for his $20,000 investment in the Company.

On July 12, 2011, we issued 571,429 shares of common stock and a warrant to purchase 571,149 shares at $.10 per share to an investor in return for his $40,000 investment in the Company.

On July 14, 2011, we issued 57,423 shares of common stock and a warrant to purchase 57,423 shares of common stock at $.10 per share to a consultant for his consulting services.

On July 26, 2011, we issued 1,250,000 shares of common stock and a warrant to purchase 1,250,000 shares at $.075 per share to an investor in return for his $75,000 investment in the Company.

On July 26, 2011, we issued 333,333 shares of common stock and a warrant to purchase 333,333 shares at $.075 per share to an investor in return for his $20,000 investment in the Company.

On July 26, 2011, we issued 333,333 shares of common stock and a warrant to purchase 333,333 shares at $.075 per share to an additional investor in return for his $20,000 investment in the Company.

On July 27, 2011, we issued 833,333 shares of common stock and a warrant to purchase 833,333 shares at $.075 per share to an investor in return for his $50,000 investment in the Company.

On August 2, 2011, we issued 166,667 shares of common stock and a warrant to purchase 166,667 shares at $.075 per share to an investor in return for his $10,000 investment in the Company.

On August 2, 2011, we issued 100,000 shares of common stock to an officer of the Company in connection with an exercise under a stock option agreement dated June 14, 2011.

On August 17, 2011, we issued 62,500 shares of common stock and a warrant to purchase 62,500 shares of common stock at $.25 per share to an investor in return for his $12,500 investment in the Company.

On August 31, 2011, we issued 475,000 shares of common stock and a warrant to purchase 475,000 shares of common stock at $.075 per share to a fund raising consultant.

On August 31, 2011, we issued 290,699 shares of common stock to a consultant as partial compensation for investor relations consulting work.

On September 15, 2011, we issued 500,000 shares of common stock and a warrant to purchase 500,000 shares of common stock at $.25 per share to an investor in return for his $100,000 investment in the Company.

On October 3, 2011, we issued 500,000 shares of common stock and a warrant to purchase 500,000 shares of common stock at $.25 per share to an investor in return for his $100,000 investment in the Company.

On October 6, 2011, we issued 100,000 shares of common stock and a warrant to purchase 100,000 shares of common stock at $.25 per share to an investor in return for his $20,000 investment in the Company.

On October 6, 2011, we issued 50,000 shares of common stock and a warrant to purchase 50,000 shares of common stock at $.25 per share to an investor in return for his $10,000 investment in the Company.

On October 11, 2011, we issued 575,000 shares of common stock to a consultant as sole compensation for investor relations consulting work.

On November 3, 2011, we issued 62,500 shares of common stock and a warrant to purchase 62,500 shares of common stock at $.20 per share to an investor in return for his $12,500 investment in the Company.

On November 8, 2011, we issued 100,000 shares of common stock and a warrant to purchase 100,000 shares of common stock at $.20 per share to an investor in return for his $20,000 investment in the Company.

On December 20, 2011, we issued 1,546,667 shares of common stock at $0.15 per share to Dr. Samuel Herschkowitz in return for his $225,000 investment in the Company, and $7,000 Board Meeting Fees.

On February 3, 2012, we issued a warrant to purchase 87,500 shares of common stock to a consultant as compensation for consulting work.

On March 5, 2012, we re-issued a warrant to purchase 100,000 shares of common stock at $.13 per share to an investor for consulting services. The original warrant was issued on June 23, 2008.

On March 6, 2012, we re-issued a warrant to purchase 100,000 shares of common stock at $.13 per share to an investor for consulting services. The original warrant was issued on June 11, 2008.

On March 6, 2012, we re-issued a warrant to purchase 71,429 shares of common stock at $.13 per share to an investor for consulting services. The original warrant was issued on June 11, 2008.

On March 26, 2012, we issued 300,000 shares of common stock at $.065 per share to Josh Kornberg, currently a Director of the Company for consulting services.

On March 28, 2012, we entered into a Convertible Note Purchase Agreement, dated as of March 28, 2012 between the Company and SOK Partners, LLC ("SOK Partners"), an investment partnership. Josh Kornberg is an affiliate of SOK Partners. Pursuant to the Purchase Agreement, we issued a 20% convertible note due August 2012 in the principal amount of up to $600,000. Advances have totaled approximately $357,000 through July 27, 2012. In April 2012, the Company issued the first equity bonus to SOK Partners, consisting of 4,615,385 shares of common stock See Note 10 - "Related Party" to the Condensed Financial Statements of this Quarterly Report on Form 10-Q for a description of the terms of the convertible note purchase agreement.

On March 28, 2012, we signed an Amended and Restated Note Purchase Agreement, dated as of December 20, 2011, with Dr. Samuel Herschkowitz (as amended, the "Herschkowitz Purchase Agreement"). Pursuant to the Herschkowitz Purchase Agreement, we issued a 20.0% convertible note due June 20, 2012 in the principal amount of $240,000 for previous advances under the note. The Company has previously issued to Dr. Herschkowitz an equity bonus consisting of 1,546,667 shares of common stock. An additional 7,500,000 shares were transferred to Dr. Herschkowitz upon the occurrence of an event of default on the note See Note 10 - "Related Party" to the Condensed Financial Statements of this Quarterly Report on Form 10-Q for a description of the terms of the convertible note purchase agreement.

In April 2012, an institutional investor elected to convert a $63,000 convertible note into shares of common stock. The investor also elected to convert $29,000 of a $37,500 convertible note into shares of common stock.

In April 2012, an institutional investor elected to convert $8,500 remaining from an original convertible note of $37,500 into 349,650 shares of common stock.

In April 2012, the Company issued an equity bonus consisting of 100,000 shares of common stock to Dr. Samuel Herschkowitz for an additional $15,000 advance under the December 20, 2011 convertible note due June 20, 2012. Dr. Herschkowitz was also issued 163,333shares of common stock as an equity bonus for $24,500 Board meeting fees.

In May 2012, the Company issued 412,963 shares of common stock to a former Board member and Officer of the Company in exchange for exercising stock options at $.01 per share.

In May 2012, the Company issued the second equity bonus to SOK Partners, consisting of 4,615,385 shares of common stock See Note 10 - “Related Party” to the Condensed Financial Statements of this Quarterly Report on Form 10-Q for a description of the terms of the convertible note purchase agreement.

In May 2012, the Company issued 3,292,557 shares of common stock to an institutional investor to transfer debt to equity by an Election to Convert a convertible note.

In May 2012, the Company issued 2,850,754 shares of common stock to a vendor to transfer debt to equity by an Election to Convert Accounts Payable.

In May 2012, the Company issued 1,463,976 shares of common stock to an individual investor to transfer debt to equity by an Election to Convert a convertible note.

In May 2012, the Company issued 565,834 shares of common stock to an individual investor to transfer debt to equity by an Election to Convert a convertible note.

In May 2012, the Company issued 1,572,327 shares of common stock to an individual investor to transfer debt to equity by an Election to Convert a convertible note.

In June 2012, an institutional investor elected to convert $12,000 of a $50,000 convertible note into 387,097 shares of common stock.

In June 2012, the Company issued 397,267 shares of common stock to a vendor to transfer debt to equity by a settlement agreement.

In June 2012, the Company issued 277,278 shares of common stock at $.09 per share to the Mr. Lawrence Gadbaw the Company’s Chairman of the Board as consulting compensation.

In June 2012, the Company issued 1,000,000 shares of common stock at $.07 per share and a warrant to purchase 1,000,000 shares of common stock at $.15 per share to an investor in return for his $70,000 investment in the Company.

In June 2012, the Company issued 357,143 shares of common stock at $.07 per share and a warrant to purchase 357,143 shares of common stock at $.15 per share to an investor in return for his $25,000 investment in the Company.

In June 2012, the Company issued 357,000 shares of common stock at $.07 per share and a warrant to purchase 357,000 shares of common stock at $.15 per share to an investor in return for his $24,990 investment in the Company.

In June 2012, the Company issued 142,857 shares of common stock at $.07 per share and a warrant to purchase 142,857 shares of common stock at $.15 per share to an investor in return for his $10,000 investment in the Company.

In June 2012, the Company issued 142,857 shares of common stock at $.07 per share and a warrant to purchase 142,857 shares of common stock at $.15 per share to an investor in return for his $10,000 investment in the Company.

In June 2012, the Company issued 142,857 shares of common stock at $.07 per share and a warrant to purchase 142,857 shares of common stock at $.15 per share to an investor in return for his $10,000 investment in the Company.

In June 2012, the Company issued 71,428 shares of common stock at $.07 per share and a warrant to purchase 71,428 shares of common stock at $.15 per share to an investor in return for his $5,000 investment in the Company.

In June 2012, an institutional investor elected to convert $18,000 of a $50,000 convertible note into 509,915 shares of common stock.

In June 2012, the Company issued 283,718 shares of common stock to an individual investor to transfer debt to equity by an Election to Convert a convertible note.

In June 2012, an institutional investor elected to convert $20,000 remaining of a $50,000 convertible note, plus $2,000 interest, into 740,741 shares of common stock.

In June 2012, the Company issued 625,000 shares of common stock to an IR firm as sole compensation for investor relations consulting work.

In June 2012, the Company issued 357,143 shares of common stock at $.07 per share and a warrant to purchase 357,143 shares of common stock at $.15 per share to an investor in return for his $25,000 investment in the Company.

Unless otherwise specified above, the Company believes that all of the above transactions were transactions not involving any public offering within the meaning of Section 4(2) of the Securities Act, since (a) each of the transactions involved the offering of such securities to a substantially limited number of persons; (b) each person took the securities as an investment for his/her/its own account and not with a view to distribution; (c) each person had access to information equivalent to that which would be included in a registration statement on the applicable form under the Securities Act; and (d) each person had knowledge and experience in business and financial matters to understand the merits and risk of the investment; therefore no registration statement needed to be in effect prior to such issuances.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

See "Exhibit Index" below, which follows the signature pages to this registration statement.

ITEM 17. UNDERTAKINGS

(a) The undersigned registrant hereby undertakes:

(b)Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has 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. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant 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, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Amendment No. 2 to Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Eagan, on October 18, 2012.

BIODRAIN MEDICAL, INC.

By: /s/ Joshua Kornberg
Joshua Kornberg
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Joshua Kornberg as his true and lawful attorney-in-fact and agent with full power of substitution and resubstitution for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement, or any related registration statement filed pursuant to Rule 462(b) under the Securities Act of 1933, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission and any other regulatory authority, granting unto said attorney-in-fact and agent, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as such person might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

Signature	Title	Date
/s/ Joshua Kornberg Joshua Kornberg	President, Chief Executive Officer (principal executive officer), and Director	10/17/18
/s/ Bob Myers Bob Myers	Chief Financial Officer (principal financial and accounting officer)	10/17/18
/s/ Lawrence W. Gadbaw Lawrence W. Gadbaw	Chairman of the Board of Directors	10/17/18
/s/ Peter L. Morawetz Peter L. Morawetz	Director	10/17/18
/s/ Thomas J. McGoldrick Thomas J. McGoldrick	Director	10/17/18
/s/ Andrew Reding Andrew Reding	Director	10/17/18
/s/ Ricardo Koenigsberger Ricardo Koenigsberger	Director	10/17/18

EXHIBIT INDEX

Exhibit Number	Description
3.1	Articles of Incorporation, as amended (6)
3.2	Bylaws, as amended (8)
5.1	Opinion of Maslon Edelman Borman & Brand, LLP *
10.1	Employment Agreement between the Registrant and Joshua Kornberg, dated August 13, 2012 (1)
10.2	Confidential Separation Agreement and Release between the registrant and Lawrence W. Gadbaw, dated August 13, 2008 (1)
10.3	Stock Option Agreement between the registrant and Kevin R. Davidson, dated June 5, 2008 (1)
10.4	Director Stock Option Agreement between the registrant and Thomas McGoldrick, dated August 22, 2006 (1)
10.5	Director Stock Option Agreement between the registrant and Andrew P. Reding, dated November 11, 2006 (1)
10.6	Consulting Agreement between the registrant and Marshall C. Ryan and Mid-State Stainless, Inc., dated June 2008 (1)
10.7	Patent Assignment by Marshall C. Ryan in favor of the registrant, dated June 18, 2008 (1)
10.8	Convertible Debenture between the registrant and Kevin R. Davidson, dated February 2, 2007 (1)
10.9	Convertible Debenture between the registrant and Peter L. Morawetz, dated February 2, 2007 (1)
10.10	Convertible Debenture between the registrant and Andrew P. Reding, dated February 2, 2007 (1)
10.11	Convertible Debenture between the registrant and Thomas McGoldrick, dated January 30, 2007 (1)
10.12	Convertible Debenture between the registrant and Andcor Companies, Inc., dated September 29, 2006 (1)
10.13	Convertible Debenture between the registrant and Carl Moore, dated March 1, 2007 (1)
10.14	Convertible Debenture between the registrant and Roy Moore, dated March 1, 2007 (1)
10.15	Form of Subscription Agreement (1)
10.16	Form of Registration Rights Agreement (1)
10.17	Form of Escrow Agreement (1)
10.18	Form of Warrant (1)
10.19	2008 Equity Incentive Plan (1)
10.20	Office Lease Agreement between the registrant and Roseville Properties Management Company, as agent for Lexington Business Park, LLC (1)
10.21	Employment Agreement between the registrant and David Dauwalter, dated August 11, 2008 (2)
10.22	Amendment No. 1 to Employment Agreement between the registrant and David Dauwalter, dated September 11, 2008 (2)
10.23	Consulting Agreement by and between the registrant and Andcor Companies, Inc., dated September 15, 2008 (2)
10.24	Consulting Agreement by and between the registrant and Taylor & Associates, Inc., dated August 15, 2008 (2)
10.25	Independent Contractor Agreement between Belimed, Inc. and the registrant, dated February 2, 2009 (3)
10.26	Supply Agreement between Oculus Innovative Sciences, Inc., and the registrant, dated February 20, 2009 (4)
10.27	Agreement between the registrant and Peter Morawetz, dated May 15, 2009 (5)
10.28	Amendment No. 1 to BioDrain Medical, Inc. 2008 Equity Incentive Plan (7)

10.29	Note Purchase Agreement between the registrant and Dr. Samuel Herschkowitz, dated December 20, 2011 (9)
10.30	Amended and Restated Note Purchase Agreement between the registrant and Dr. Samuel Herschkowitz, effective December 20, 2011 (10)
10.31	Note Purchase Agreement between the registrant and SOK Partners, LLC, dated March 28, 2012 (11)
10.32	Forbearance and Settlement Agreement among the registrant, Dr. Samuel Herschkowitz and SOK Partners, LLC dated August 15, 2012*
10.33	BioDrain Medical, Inc. 2012 Stock Incentive Plan, adopted on August 13, 2012 (12)
10.34	Form of Non-Qualified Stock Option Agreement under the 2012 Stock Incentive Plan*
10.35	Employment Agreement with Josh Kornberg dated August 13, 2012*
10.36	Non-Qualified Stock Option Agreement with Josh Kornberg dated August 13, 2012*
10.37	Employment Agreement with Robert Myers dated August 11, 2012*
10.38	Employment Agreement with David Johnson dated August 13, 2012*
10.39	Separation Agreement with Chad A. Ruwe dated August 21, 2012*
10.40	Separation Agreement with Kevin Davidson effective October 11, 2012*
23.1	Consent of Olsen Thielen & Co., Ltd. *
23.2	Consent of Maslon Edelman Borman & Brand LLP (included as Exhibit 5.1)
24.1	Power of Attorney (included as part of the signature pages to this registration statement)

*Filed herewith.

(1) Filed on November 12, 2008 as an exhibit to our Registration Statement on Form S-1 and incorporated herein by reference.

(2) Filed on January 12, 2009 as an exhibit to Amendment No. 1 to our Registration Statement on Form S-1 and incorporated herein by reference.

(3) Filed on April 6, 2009 as an exhibit to our Amendment No. 3 to our Registration Statement on Form S-1 and incorporated herein by reference.

(4) Filed on July 1, 2009 as an exhibit to our Amendment No. 5 to our Registration Statement on Form S-1 and incorporated herein by reference.

(5) Filed on August 12, 2009 as an exhibit to Amendment No. 7 to our Registration Statement on Form S-1and incorporated herein by reference.

(6) Filed on March 31, 2011 as an exhibit to our Annual Report on Form 10-K and incorporated herein by reference.

(7) Filed on June 15, 2011 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.

(8) Filed on November 23, 2011 as an exhibit to Amendment No. 1 to our Quarterly Report on Form 10-Q and incorporated herein by reference.

(9) Filed previously with this Form S-1 on January 24, 2012

(10) Filed on April 3, 2012 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.

(11) Filed on April 3, 2012 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.

(12) Filed on September 4, 2012 as Appendix A to our definitive Proxy Statement for the 2012 Annual Meeting and incorporated herein by reference.

Exhibit 5.1

MASLON EDELMAN BORMAN & BRAND LLP

October 18, 2012

BioDrain Medical, Inc.
2915 Commers Drive, Suite 900
Eagan, Minnesota 55121

Re: Amendment No. 2 to Registration Statement on Form S-1 (Securities and Exchange Commission File No. 333-179145) (the *"Amendment"*)

Ladies and Gentlemen:

We have acted as counsel for BioDrain Medical, Inc., a Minnesota corporation (the *"Company"*) in connection with the Company's filing of the Amendment relating to the registration under the Securities Act of 1933, as amended (the *"Act"*), of the resale by the selling stockholders named therein (the "*Selling Stockholders*") of an aggregate of 87,703,769 shares (the "*Shares*") of common stock, par value $0.01 per share (the "*Common Stock*"), of which 45,040,769 are issued and outstanding on the date hereof (the "*Original Shares*") and up to an aggregate 42,663,000 shares (the "*Conversion Shares*") are issuable upon the conversion of the convertible promissory notes of the Company held by the Selling Stockholders (the "Notes").

In connection with rendering this opinion, we have reviewed the following: (i) the Company's articles of incorporation, as amended to date; (ii) the Company's bylaws in effect on the date hereof; (iii) the Notes; (iv) certain resolutions of the Company's Board of Directors pertaining to the issuance by the Company of the Shares and the Notes; and (v) such other documents, certificates and records as we deemed necessary or appropriate as a basis for the opinions expressed herein.

Based upon the following and upon the representations and information provided by the Company, we hereby advise you that, in our opinion:

1. The Original Shares have been duly authorized and are validly issued, fully paid and nonassessable; and

2. The Conversion Shares have been duly authorized and the Conversion Shares, when issued upon conversion of the Notes in accordance with the terms of the Notes upon the satisfaction of conditions set forth therein, will be validly issued, fully paid and nonassessable.

We hereby consent to the filing of this opinion as an exhibit to the Amendment and to the reference to our firm under the caption *"Validity of Common Stock"* included in the Amendment and the related Prospectus.

We hereby consent to the filing of this opinion as an exhibit to the Amendment in accordance with the requirements of Item 601(b)(5) of Regulation S-K under the Securities Act. We also consent to the reference to our name under the caption "Validity of Common Stock" in the prospectus filed as part of the Amendment. In giving such consent, we do not hereby admit that we are in the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations of the Securities and Exchange Commission.

Very truly yours,

/s/ Maslon Edelman Borman & Brand

MASLON EDELMAN BORMAN & BRAND, LLP

Exhibit 10.32

BIODRAIN MEDICAL, INC.
2915 Commers Drive, Suite 900
Eagan, MN 55121

August 15, 2012

Dr. Samuel Herschkowitz
122 Willow Street
Brooklyn, NY 11201

SOK Partners, LLC
c/o Dr. Samuel Herschkowitz
122 Willow Street
Brooklyn, NY 11201

Re: Terms of Forbearance

Dear Dr. Herschkowitz:

I am writing to set forth the terms of the forbearance by you and your affiliate, Atlantic Partners Alliance, LLC ("**APA**") from exercising certain default rights against BioDrain Medical, Inc. (the "**Company**") and its affiliates as of the date of this letter (the "**Effective Date**"). In exchange for your agreement to such forbearance as described in this letter agreement and your other agreements herein, you will be entitled to the compensation as set forth below in Section 6. Unless otherwise stated, all capitalized terms used but not defined herein shall have the meaning(s) ascribed to them in the Note Purchase Agreement, as defined below.

In consideration of the compensation set forth in Section 6 and other promises and covenants made in this letter agreement, the sufficiency of which consideration is acknowledged by both parties hereto, you and the Company agree as follows:

1. Background. You and the Company entered into that certain Note Purchase Agreement dated as of December 20, 2011 and subsequently amended and restated effective as of the same date (as amended, the "**Herschkowitz Note Purchase Agreement**") pursuant to which the Company issued and sold to you a Convertible Promissory Note dated as of December 21, 2011, in the original principal amount of $225,000 (as amended concurrently with the Herschkowitz Note Purchase Agreement, the "**Herschkowitz Note**"). Capitalized terms that are not defined herein shall have the meanings set forth in the Herschkowitz Note Purchase Agreement. As security for the Herschkowitz Note, you hold a first security interest in substantially all of the assets of the Company. Further, SOK Partners, LLC, (**"SOK"**) which is also an affiliate of APA, entered into that certain Note Purchase Agreement dated as of March 28, 2012 (the "**SOK Note Purchase Agreement**") pursuant to which the Company issued and sold to SOK a Convertible Promissory Grid Note dated as of March 28, 2011, in the principal amount of up to $600,000 (the "**SOK Note**").

2. Protection Against Dilution. The Company and APA are also parties to a letter agreement dated March 14, 2012 (the **"Anti-Dilution Letter"**), providing APA and its affiliates (including you and SOK) with certain rights to avoid dilution relating to additional issuances of equity securities by the Company, evidencing the parties' intent that APA would be provided with significant protection against dilution. This protection was in recognition of APA's investments in the Company involving a high degree of risk and the Company's contemplated need for restructuring its indebtedness, which would result in significant dilution. The parties acknowledge that you and SOK would not have made their historical cash investments in the Company to the same degree had the dilution protection not been provided, and the investments by APA have enabled the Company to avoid insolvency. Since the respective dates of the Herschkowitz Note Purchase Agreement and the SOK Note Purchase Agreement, the Company has issued in excess of 16,000,000 shares of common stock to parties other than APA and its affiliates, resulting in significant dilution.

3. Default Notice. Pursuant to a letter dated April 20, 2012, you advised the Company of the occurrence of certain events of default under the terms of the Herschkowitz Note and the Herschkowitz Note Purchase Agreement. As a result of such events of default, you asserted significant rights as a secured creditor of the Company.

4. Existing Defaults. You and the Company acknowledge that the Company is in default under the following provisions of the Herschkowitz Note Purchase Agreement and/or the Herschkowitz Note, as applicable (the "**Existing Defaults**"), and such Existing Defaults constitute "Events of Default" as set forth in Section 11 of the Herschkowitz Note and under the Default Notice. You further acknowledge and represent that the below-listed events are the only Events of Default as of the Effective Date:

a. Herschkowitz Note, Section 11(d): The Company has failed to pay past due amounts aggregating to $332,000 under the terms of three convertible debenture notes issued by the Company to Dean and Carol Ruwe, plus unpaid interest.

b. Herschkowitz Note Purchase Agreement, Section 1.04: The Company has failed to register, and cause to be declared effective such registration under the Securities Act, the 1,546,666 shares of the Company's Common Stock that were issued in connection with the Equity Bonus and in payment of the Board Meeting Fees.

c. Herschkowitz Note Purchase Agreement, Section 4.01: The Company has failed on two occasions to invite the Board Advisors to meetings of the Company's Board of Directors.

d. Herschkowitz Note Purchase Agreement, Section 4.02: The Company has failed to (i) register the Penalty Shares under the Securities Act and (ii) obtain and deliver to you a legal opinion from legal counsel confirming that: (A) the Penalty Shares are registered under the Securities Act and may be sold upon compliance with the prospectus delivery requirements of the Securities Act and (B) any legends upon the stock certificates evidencing the Penalty Shares may be removed upon a sale in compliance with such prospectus delivery requirements.

e. Herschkowitz Note Purchase Agreement, Section 4.04: The Company has failed to deliver to you the Budget not less than five (5) Business Days prior to the first day of certain months following the date of the Herschkowitz Note Purchase Agreement.

5. Forbearance. As of the Effective Date, in consideration of the mutual agreements of the parties herein, you and each of your affiliates, successors, assigns, beneficiaries, insurers, indemnitors, trustees, agents and representatives, hereby forbear from exercising any of your rights arising under the Herschkowitz Note or the Herschkowitz Note Purchase Agreement with respect to the Existing Defaults against the Company, and each of its respective officers, directors, shareholders, affiliates, predecessors, successors, assigns, insurers, indemnitors, attorneys, employees, agents and representatives; *provided, however*, that the foregoing shall be subject to the limitations set forth in this letter agreement and shall not release or waive any breach of this letter agreement. You further agree to forbear from exercising any rights with respect to events of default, security interests in the Collateral and other similar remedies against the Company or its interests under the Herschkowitz Note or the Herschkowitz Note Purchase Agreement until the occurrence of an Event of Default (as defined in the Herschkowitz Note): (a) that does not constitute an Existing Default and (b) occurs and accrues after the Effective Date of this Agreement (the "**Forbearance Termination Conditions**"). The Company acknowledges that, subject to the forbearance as described herein and the other provisions of this letter agreement, you retain all of your rights and remedies under the Herschkowitz Note and the Herschkowitz Note Purchase Agreement, which rights and remedies remain in full force and effect until otherwise terminated.

6. Penalty Shares. You and the Company acknowledge that 7,500,000 shares of the Company's Common Stock, constituting the "Penalty Shares" under Section 4.02 of the Herschkowitz Note Purchase Agreement, have been delivered to you prior to the Effective Date as provided in the Herschkowitz Note Purchase Agreement upon an Event of Default.

7. Additional Agreements by You and SOK. You and SOK also agree to the following:

a. The second paragraph of the Herschkowitz Note is hereby amended and restated as follows:

"This promissory note (the ***"Note"***) is issued by the Borrower pursuant to that certain Note Purchase Agreement dated as of the date hereof (the ***"Purchase Agreement"***), entered into between the Borrower and the Lender, and is subject to, and Borrower and Lender shall be bound by, all the terms, conditions and provisions of the Purchase Agreement. This Note shall become due and payable on December 31, 2012 (the " ***Maturity Date*** "). Capitalized terms used herein but not defined herein shall have the meanings ascribed to them in the Purchase Agreement."

b. The second full paragraph of the SOK Note is hereby amended and restated as follows:

"This promissory note (the ***"Note"***) is issued by the Borrower pursuant to that certain Note Purchase Agreement dated as of the date hereof (the ***"Purchase Agreement"***), entered into between the Borrower and the Lender, and is subject to, and Borrower and Lender shall be bound by, all the terms, conditions and provisions of the Purchase Agreement. This Note shall become due and payable on December 31, 2012 (the "***Maturity Date***"). Capitalized terms used herein but not defined herein shall have the meanings ascribed to them in the Purchase Agreement."

c. The following is added as Section 4.03(d) of the Herschkowitz Note Purchase Agreement:

"(d) Within five (5) business days after the earlier of the (i) full (100%) conversion into shares of Common Stock or (ii) full payment of, all of the outstanding principal amount and accrued interest due and payable under all promissory notes of the Company outstanding on the date of this Agreement **(**excluding the SOK Note), the Lender shall forever discharge, release and terminate any and all security interests in the Collateral ("**Security Release**"). For purposes of clarity, Lender shall not be required to consummate any Security Release in the event of partial conversion and/or partial payment under the immediately preceding items (i) and (ii), respectively."

d. Notwithstanding Section 11 of the Herschkowitz Note which provides for an increased rate of interest on any outstanding amounts under the Herschkowitz Note (the "**Balance**") triggered by certain Events of Default (as defined in the Herschkowitz Note), you understand and acknowledge that the rate of interest accruing on the Balance shall remain at 20% calculated based on a 365-day year and compounded annually (the "**Standard Interest Rate**") until the Maturity Date or such other date as may be mutually agreed upon by you and the Company or until a subsequent Event of Default. You and the Company acknowledge that the Balance has not at any time or under any circumstances been subject to any other rate of interest other than the Standard Interest Rate.

e. Section 11 of the Herschkowitz Note is amended to delete subparagraph (g) and to insert the following subparagraphs following subparagraph (f):

(g) any money judgment or judgments (other than a money judgment covered by insurance as to which the insurance company has not disclaimed or reserved the right to disclaim coverage), writ or writs or warrant or warrants of attachment, or any similar process or processes, shall be entered or filed against the Borrower, or against any of the Collateral (as defined in the Purchase Agreement), in an aggregate amount in excess of $25,000, and which remains undischarged, unvacated, unbonded or unstayed for a period of 30 days;

(h) any person shall commence legal proceedings to foreclose on the lien or security interest of such person in any Collateral;

(i) any creditor of the Borrower shall take action to take possession of, or sell or otherwise realize upon, or to exercise any other rights or remedies with respect to, any Collateral, including any sale or other disposition of any Collateral by the Borrower with the consent of, or at the direction of, any of its creditors; or

(j) any person shall take action to take control or possession of, or exercise of any right of setoff with respect to, any Collateral.

f. The Company and you, individually and acting as an authorized signatory for APA and its affiliates and individual members agree to terminate the Anti-Dilution Letter. In consideration of the compensation provided in this Agreement, you agree that the Anti-Dilution Letter is no longer operative, valid or binding on you, APA or the Company and each and all of its terms, including without limitation the grant of anti-dilution rights to APA contained therein, is/are void and inoperative.

8. Compensation and Terms of Forbearance. In consideration of the forbearance and your other agreements herein, you agree to and accept the following conditions of forbearance and/or compensation, as applicable:

a. On the date of this Agreement, the Company is issuing to you 13,250,000 shares of authorized but unissued shares of its Common Stock. As of the date of issuance, such shares shall be fully paid and non-assessable shares. The Company will use its best efforts to register such shares on the S-1 to the same extent that it registers the Equity Bonus on the S-1; provided, that any delay in the registration of such shares by the Company shall not constitute a Forbearance Termination Condition.

b. On the date of this Agreement, the Company is issuing to SOK Partners, LLC (**"SOK"**) an additional 13,250,000 shares of authorized but unissued shares of its Common Stock. As of the date of issuance, such shares shall be fully paid and non-assessable shares. The Company will use its best efforts to register such shares on the S-1 to the same extent that it registers the Equity Bonus on the S-1; provided, that any delay in the registration of such shares by the Company shall not constitute a Forbearance Termination Condition.

c. Section 6 of the Herschkowitz Note is hereby amended and restated as follows:

"6. Right to Convert. Subject to and upon compliance with the provisions of Section 7, the Purchaser shall have the right, at its option, at any time and from time to time, so long as any amount remains payable under this Note, to convert all or any part of the outstanding principal amount or accrued interest hereunder (the " ***Outstanding Amount*** ") into shares of Common Stock at a conversion price per share equal to $0.014 per share, as such amount may be adjusted pursuant to Section 9 below (the " ***Conversion Price*** ")."

d. Section 6 of the SOK Note is hereby amended and restated as follows:

"6. Right to Convert. Subject to and upon compliance with the provisions of Section 7, the Purchaser shall have the right, at its option, at any time and from time to time, so long as any amount remains payable under this Note, to convert all or any part of the outstanding Principal Amount or accrued interest hereunder (the " ***Outstanding Amount*** ") into shares of Common Stock at a conversion price per share equal to $0.014 per share, as such amount may be adjusted pursuant to Section 9 below (the " ***Conversion Price*** ")."

e. In the event that the Company consummates, in substantially similar form, the following series of transactions on or prior to June 30, 2013: (i) a merger or similar transaction with a public shell company (the "**Shell Merger**"), (ii) raising between $2,000,000 and $4,000,000 through an offering of the securities of the public shell company concurrent with or subsequent to the Shell Merger (the "**Qualifying Round**") and (iii) listing the Company's shares on NASDAQ pursuant to an underwritten offering of the Company's securities resulting in gross proceeds of between $5,000,000 and $30,000,000 (the "**NASDAQ Underwriting**" and collectively with the Shell Merger and Qualifying Round, the "**Shell Transactions**"), then the Company shall deliver to you the following compensation: (A) $75,000 upon consummating the Shell Merger, (B) $150,000 upon consummating the Qualifying Round and (C) 3% of the gross proceeds of the NASDAQ Underwriting, which payment shall under no circumstances be less than $200,000 or greater than $1,000,000. The Company shall reimburse you at your actual out-of-pocket cost for reasonable expenses incurred in connection with the Shell Transactions but in no event in an amount greater than $10,000 (the "**Transaction Fees**").

9. Governing Law. This Agreement shall be governed by the laws of the State of New York, without regard to its conflicts-of-law provisions.

10. Counterparts. This Agreement may be executed by the parties in counterparts, all of which, when taken together, shall constitute a fully executed version of this Agreement. This Agreement, or a counterpart, thereof, may be executed and delivered by telecopier, facsimile or any other electronic transmission, including, without limitation, a scanned version in .pdf format, and the telecopier, facsimile or any other electronic transmission of a signature to another party or parties (or to their respective legal representatives) shall be of the same force and effect as the delivery of an original signature.

Signature Page Follows

IN WITNESS WHEREOF, the undersigned have executed this Agreement to be effective as of the Effective Date.

BIODRAIN MEDICAL, INC.

/s/ Bob Myers
By: Bob Myers
Its: Chief Financial Officer

/s/ Samuel Herschkowitz
By: Samuel Herschkowitz, M.D., *individually and on behalf of Atlantic Partners Alliance, LLC*

SOK PARTNERS, LLC

/s/ Samuel Herschkowitz
By: Samuel Herschkowitz, M.D.
Its: Managing Partner

Exhibit 10.34

BIODRAIN MEDICAL, INC.
NON-QUALIFIED STOCK OPTION AGREEMENT

This STOCK OPTION AGREEMENT (the "Agreement") is made and entered into effective as of the _____ day of __________, 20___, between BioDrain Medical, Inc., a Minnesota corporation (the "Company") and ________________ ("Employee").

BACKGROUND

A. Employee has either been hired to serve as an employee to the Company or the Company desires to induce Employee to continue to serve the Company as an employee.

B. The Company has adopted the 2012 Stock Incentive Plan (the "Plan"), pursuant to which shares of common stock of the Company have been reserved for issuance under the Plan.

NOW, THEREFORE, the parties hereto agree as follows:

1. Grant of Option; Purchase Price. Subject to the terms and conditions herein set forth, the Company hereby irrevocably grants from the Plan to Employee the right and option, hereinafter called the "Option", to purchase all or any part of an aggregate of the number of shares of common stock, $0.01 par value, of the Company (the "Shares") set forth at the end of this Agreement after "Number of Shares" at the price per Share set forth at the end of this Agreement after "Purchase Price."

2. Exercise and Vesting of Option. The Option shall be exercisable only to the extent that all, or any portion thereof, has vested in Employee. The Option shall vest immediately with respect to _______ shares and shall be exercisable to that extent for the entire term of the Option, unless the Option terminates earlier as provided herein. The remaining portion of the Option, with respect to ________ shares, will vest as follows: ___.

3. Termination of Employment. Except as provided in Section 5(a) below, in the event that Employee ceases to be employed by the Company, for any reason or no reason, with or without cause, prior to any Vesting Date, that part of the Option scheduled to vest on such Vesting Date, and all parts of the Option scheduled to vest in the future, shall not vest and all of Employee's rights to and under such non-vested parts of the Option shall terminate.

4. Term of Option. To the extent vested, and except as otherwise provided in this Agreement, the Option shall be exercisable for ten (10) years from the date of this Agreement; provided, however, that, except as provided in Section 5(a) below, in the event Employee ceases to be employed by the Company, for any reason or no reason, Employee or his/her legal representative shall have three (3) months from the date of such termination of his/her position as an employee to exercise any part of the Option vested pursuant to Section 3 of this Agreement. Upon the expiration of such three (3) month period, except as provided in Section 5, or, if earlier, upon the expiration date of the Option as set forth above, the Option shall terminate and become null and void.

5 . Death of Employee. In the event of Employee's death, the person designated in Employee's will, or in the absence of such designation, Employee's legal representative may, in like manner, exercise the Option to the extent of the number of Shares which were vested at the time of his/her death, but such right shall expire unless exercised by such designated person or legal representative within the earlier of (i) six (6) months after the death of Employee, or (ii) the expiration of the Option.

6. Change in Control. "Change in Control" has the meaning provided in the Plan. Notwithstanding anything to the contrary contained herein, in the event of a Change in Control of the Company, the Option shall become fully vested upon the effective date of such event, and shall remain exercisable for the remainder of the term of the Option.

7 . Method of Exercising Option. Subject to the terms and conditions of this Agreement and the Plan, the Option may be exercised by written notice to the Company. Such notice shall state the election to exercise the Option, the number of Shares in respect of which it is being exercised, the method of exercise, and shall be signed by the person or persons exercising the Option. The Employee may exercise the Option by (i) paying to the Company in cash the full exercise price; (ii) arranging for a broker to sell Shares and immediately thereafter pay to the Company the full exercise price; or (iii) delivering Shares previously owned by Employee, the total market value of which equals the full exercise. Applicable tax withholding may be paid by any method permitted under the Plan. Upon proper exercise, the Company shall deliver a certificate or certificates representing such Shares as soon as practicable after the notice shall be received. All Shares that shall be purchased upon the exercise of the Option as provided herein shall be fully paid and non-assessable.

8 . Rights of Option Holder. Employee, as holder of the Option, shall not have any of the rights of a shareholder with respect to the Shares covered by the Option except to the extent that one or more certificates for such Shares shall be delivered to him or her upon the due exercise of all or any part of the Option.

9 . Limitations on Transferability. The Option shall not be transferred, pledged or assigned except, in the event Employee's death, by will or the laws of descent and distribution to the limited extent provided in the Plan, or pursuant to a qualified domestic relations order as defined by the Internal Revenue Code of 1986, as amended (the "Code") or Title I of the Employee Retirement Income Security Act, or the rules there under, and the Company shall not be required to recognize any attempted assignment of such rights. Notwithstanding the preceding sentence, the Option may be transferred by Employee to Employee's spouse, children, grandchildren or parents (collectively, the "Family Members"), to trusts for the benefit of Family Members, to partnerships or limited liability companies in which Family Members are the only partners or shareholders, or to entities exempt from federal income taxation pursuant to Section 501(c)(3) of the Code. During Employee's lifetime, the Option may be exercised only by him or her, by his/her guardian or legal representative or by the transferees permitted by the preceding sentence.

10. No Continued Employment or Right to Corporate Assets. Nothing contained in this Agreement shall be deemed to grant Employee any right to continue in the employ of the Company for any period of time or to any right to continue his/her present or any other rate of compensation, nor shall this Agreement be construed as giving Employee, Employee's beneficiaries or any other person any equity or interests of any kind in the assets of the Company or creating a trust of any kind or a fiduciary relationship of any kind between the Company and any such person.

11. Securities Law Matters. Employee acknowledges that the Shares to be received by him or her upon exercise of the Option may not have been registered under the Securities Act of 1933 or the Blue Sky laws of any state (collectively, the "Acts"). If such Shares have not been so registered, Employee acknowledges and understands that the Company is under no obligation to register, under the Acts, the Shares received by him or her or to assist him or her in complying with any exemption from such registration if he or she should at a later date wish to dispose of the Shares. Employee acknowledges that if not then registered under the Acts, the Shares shall bear a legend restricting the transferability thereof, such legend to be substantially in the following form:

> "The shares represented by this certificate have not been registered or qualified under federal or state securities laws. The shares may not be offered for sale, sold, pledged or otherwise disposed of unless so registered or qualified, unless an exemption exists or unless such disposition is not subject to the federal or state securities laws, and the Company may require that the availability or any exemption or the inapplicability of such securities laws be established by an opinion of counsel, which opinion of counsel shall be reasonably satisfactory to the Company."

12. Employee Representations. Employee hereby represents and warrants that Employee has reviewed with his/her own tax advisors the federal, state, and local tax consequences of the transactions contemplated by this Agreement. Employee is relying solely on such advisors and not on any statements or representation of the Company or any of its agents. Employee understands that he or she will be solely responsible for any tax liability that may result to him or her as a result of the transactions contemplated by this Agreement. The Option, if exercised, will be exercised for investment and not with a view to the sale or distribution of the Shares to be received upon exercise thereof.

13. General.

(a) The Option is granted pursuant to the Plan and is governed by the terms thereof. In the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall control. The Company shall at all times during the term of the Option reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of this Agreement.

(b) Nothing herein expressed or implied is intended or shall be construed as conferring upon or giving to any person, firm, or corporation other than the parties hereto, any rights or benefits under or by reason of this Agreement.

(c) Each party hereto agrees to execute such further documents as may be necessary or desirable to effect the purposes of this Agreement.

(d) 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 agreement.

(e) This Agreement, in its interpretation and effect, shall be governed by the laws of the State of Minnesota applicable to contracts executed and to be performed therein.

[Signature page follows]

[Signature page to Non-Qualified Stock Option Agreement]

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first written above.

NUMBER OF SHARES:	**BIODRAIN MEDICAL, INC**.
x,xxx	By ______________________
	Its ______________________
PURCHASE PRICE:	**EMPLOYEE:**
$xx.xx/per share	______________________
	DATE: ______________________

EXHIBIT 10.35

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is made as of the 24th day of July, 2012, between BioDrain Medical, Inc., a Minnesota corporation (the "Company"), and Josh Kornberg (the "Executive").

WHEREAS, the Company desires to employ the Executive and the Executive desires to be employed by the Company beginning on April 24, 2012 (the "Commencement Date") on the terms contained herein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Employment.

(a) Term. The Company hereby employs the Executive, and the Executive hereby accepts such employment, for an initial term commencing as of the Commencement Date and continuing for a one-year period (the "Initial Term"), unless sooner terminated in accordance with the provisions of Section 3; with such employment hereunder to automatically continue following the Initial Term for additional, successive one-year periods in accordance with the terms of this Agreement (subject to earlier termination as aforesaid) unless either party notifies the other party in writing of its intention not to renew this Agreement at least sixty (60) days prior to the expiration of (as applicable) the Initial Term or then-current one-year extension period (the Initial Term, together with any such extension of employment hereunder, shall hereinafter be referred to as the "Term").

(b) Position and Duties. During the Term, the Executive shall serve as the Chief Executive Officer and President of the Company, and shall have supervision and control over and responsibility for the day-to-day business and affairs of the Company, such other duties, responsibilities and authorities as are consistent with those positions, and shall have such other powers, duties and responsibilities as may from time to time be prescribed by the Chairman of the Board of Directors of the Company (the "Board"), provided that such duties are consistent with the Executive's positions (or other positions that he may hold from time to time). The Executive's duties and responsibilities shall include, but are not limited to, devising, implementing and overseeing strategic reorganization and restructuring initiatives. It is understood and agreed that the Executive shall not be required to relocate to, or maintain his primary office or work generally from, the Company's main offices in Minnesota (or other specific or successor location). It is anticipated and agreed that Executive will and may perform his duties primarily from such location(s) as he may choose other than the Company's main offices; provided, however, the Executive will travel to and work at the Company's main offices in Minnesota from time to time as business circumstances mandate. The Company will provide and maintain an office with appropriate equipment and support for Executive at its main offices in Minnesota (or any successor location). The Executive shall devote substantially all of his business time, during normal business hours, to the business and affairs of the Company. The Executive may (i) manage his and his family's finances, assets, affairs, and investments, (ii) serve on other boards of directors (provided such service is disclosed to the Board) and (iii) engage in religious, charitable or other community activities, as long as such services and activities do not unreasonably interfere with the Executive's performance of his duties for the Company, and as long as the activities described in clauses (ii) and (iii) do not constitute a conflict of interest as reasonably determined by the Board.

(c) Board Membership. Effective on or about March 9, 2012, the Executive was appointed as a member of the Board and since that date has been serving, and during his employment hereunder (and thereafter (unless his Board membership has been otherwise terminated)) shall continue to serve as a member of the Board, subject to the applicable by-laws and any other governing documents pertaining to Board membership and service.

2. Compensation and Related Matters.

(a) Base Salary. During the Term, the Executive's initial annual base salary shall be $180,000.00 per year, subject to adjustment (but not decrease without the written consent of the Executive) from time to time in the discretion of the Board or the Compensation Committee of the Board (the "Compensation Committee"). The base salary in effect at any given time is referred to herein as "Base Salary." The Base Salary shall be payable in a manner that is consistent with the Company's usual payroll practices for senior executives. The first such payroll payment after the date of this Agreement shall include a catch-up payment of all Base Salary accrued but not yet paid for the period starting from the Commencement Date through the date of such payment (based on the rate of $180,000 per annum).

(b) Incentive Compensation. In connection with his employment during the Term, the Executive shall be eligible to receive cash and/or equity incentive compensation as determined by the Board and/or the Compensation Committee from time to time, including, without limitation, the incentive compensation described in 2(b)(i) and 2(b)(ii) below

(i) Annual Bonus. The Executive shall be eligible to receive with respect to each calendar year ending during the Term of the Executive's employment with the Company (i.e., for 2012, for the period from the Commencement Date through December 31, 2012, and for the period January 1 through December 31 of each year thereafter during the Term) a bonus payment subject to the terms of this Section 2(b)(i) (the "Annual Bonus"). The amount of the Annual Bonus shall be determined based on the attainment of reasonable Company and/or individual performance metrics established and revised annually by the Compensation Committee and/or Board in consultation with the Executive (which shall be set at or about the beginning of the given year to which the metrics relate; and for 2012 which will be based on the performance measures, goals and standards set forth in a letter agreement (to be an exhibit to this Agreement) approved by the Executive and the Compensation Committee and/or Board on or about the date of this Agreement or as soon thereafter as practicable but in no event by later than August 15, 2012). The Executive's target Annual Bonus shall be 150 percent of his Base Salary (the "Target Annual Bonus"); provided that the actual amount of the Annual Bonus for each calendar year shall be determined by the Compensation Committee and/or the Board based on relative level of achievement of the applicable metrics and which may be in an amount greater or less than the Target Annual Bonus but shall not be less than 50 percent of the Target Annual Bonus (the "Minimum Bonus"). The Annual Bonus shall be payable in a single lump sum in cash between January 1 and March 15 of the year following the calendar year to which such Annual Bonus Relates. Notwithstanding the foregoing, the Annual Bonus for the calendar year ending December 31, 2012 will be pro-rated based on the percentage of 2012 during which Executive is employed (measured starting from the Commencement Date). Except as otherwise provided in this Agreement, to earn and be entitled to payment of an Annual Bonus in respect of a given calendar year, the Executive must be employed by the Company on the last day (i.e., December 31st) of the calendar year to which the bonus relates (such date, the "Bonus Vesting Date"). Notwithstanding the foregoing, the Executive (or his estate, if applicable) shall receive a pro-rata portion of the Target Annual Bonus (calculated as if all applicable performance metrics had been attained at 100% and based on the portion of the calendar year during which the Executive was employed) (the "Pro-Rata Bonus") for the calendar year during which the Executive's employment terminates in the event the Executive's employment terminates due to: (i) a termination by the Company without Cause, (ii) a termination by the Executive for Good Reason, (iii) expiration of the Term (i.e., expiration due to an election pursuant to Section 1(a) by either the Company or the Executive not to renew/extend the then current Initial Term or one-year renewal period for a subsequent year), or (iv) termination due to the Executive's death or disability.

(ii) Equity Incentive Grants. The Executive shall receive annual equity incentive grants (e.g., stock options, restricted stock or other stock-based awards) with respect to each calendar year ending during the Term of the Executive's employment with the Company (i.e., for 2012, for the period from the Commencement Date through December 31, 2012, and for the period January 1 through December 31 of each year), which shall be granted on December 31st of the calendar year to which such grant pertains (each an "Annual Grant"). Each Annual Grant shall be granted in accordance with the terms and conditions of the applicable equity incentive plan or plans then in effect and will be evidenced by an award agreement issued under the applicable plan. The target aggregate grant date fair value of each such Annual Grant shall be 200 percent of the Executive's Base Salary (the "Target Grant"), provided that the actual amount of any such award shall be determined in the reasonable discretion of the Compensation Committee and/or the Board and may be greater than the Target Grant but which shall not be less than the Target Grant. Each Annual Grant shall vest as follows: 50% on the first anniversary of the applicable grant date, 25% on the second anniversary of the applicable grant date and 25% on the third anniversary of the applicable grant date.

(c) Inducement Grant. In order to induce the Executive to accept employment with the Company and to enter into this Agreement (and in exchange for such acceptance), on the date of this Agreement, the Company shall grant to the Executive a number of shares of common stock with an aggregate grant date fair value of 200 percent of the Executive's Base Salary (the "Inducement Grant"). The Inducement Grant will be fully vested on the date of grant.

(d) Expenses. The Executive shall be entitled to receive prompt reimbursement for all reasonable expenses (including, without limitation, for business travel and entertainment) incurred by him during the Term in performing services hereunder, in accordance with the policies and procedures then in effect and established by the Company for its senior executive officers.

(e) Other Benefits. During the Term, the Executive shall be eligible to continue to participate in or receive benefits under all of the Company's Executive Benefit Plans in effect on the date hereof, or under plans or arrangements that provide the Executive with benefits at least substantially equivalent to those provided under such Executive Benefit Plans. As used herein, the term "Executive Benefit Plans" includes, without limitation, each pension and retirement plan; supplemental pension, retirement and deferred compensation plan; savings and profit-sharing plan; stock ownership plan; stock purchase plan; stock option plan; life insurance plan; medical insurance plan; disability plan; and health and accident plan or arrangement established and maintained by the Company on the date hereof for employees of the same status within the hierarchy of the Company. The Executive shall be eligible to participate in or receive benefits under any employee benefit plan or arrangement which may, in the future, be made available by the Company to its executives and key management employees, subject to and on a basis consistent with the terms, conditions and overall administration of such plan or arrangement. Any payments or benefits payable to the Executive under a plan or arrangement referred to in this Section 2(e) in respect of any calendar year during which the Executive is employed by the Company for less than the whole of such year shall, unless otherwise provided in the applicable plan or arrangement, be prorated in accordance with the number of days in such calendar year during which he is so employed. Should any such payments or benefits accrue on a fiscal (rather than calendar) year, then the proration in the preceding sentence shall be on the basis of a fiscal year rather than calendar year.

(f) Health Insurance Reimbursement. Notwithstanding anything to the contrary in Section 2(e), the Executive shall not be required to elect to participate in the Company's group health insurance plan(s) (as applicable). If the Executive does not elect to participate, the Company agrees that it shall reimburse the Executive for the premiums associated with the Executive maintaining during the Term such health insurance coverage (including medical and dental) for himself, his spouse and his eligible dependents under the personal insurance policies under which he and they are covered as of the Commencement Date (or a reasonable successor/replacement policy/policies as the Executive may hereafter obtain). For the avoidance of doubt, the Executive shall be eligible for reimbursement of, and shall be reimbursed for, all such premiums incurred by the Executive for such coverage since the Commencement Date; and the Company shall make a catch-up reimbursement payment to the Executive on the first regularly scheduled payroll date after the date of this Agreement for all such premiums incurred by the Executive for the period from the Commencement Date through such payroll date.

(g) Life Insurance Benefit. During the Term, the Company shall pay the Executive a supplemental payment on an semi-annual basis (on June 30th and December 31st of each year), with each such payment equal to the cost of six months of premiums for the Executive to maintain a commercially reasonable 10-year term life insurance policy of the Executive's choosing providing a death benefit of $1,000,000.00 (the "Life Insurance Benefit").

(h) Vacations. During the Term, the Executive shall be entitled to accrue up to four (4) weeks (i.e., 20 business days) of paid vacation days in each year, which shall be accrued ratably. Any accrued unused vacation time remaining at the end of a given year shall carryover into the following year; and the Executive shall be paid for any accrued, unused vacation remaining at the Date of Termination (as defined below); provided, however, the Executive will not be paid for any remaining accrued, unused vacation time in the event the Company terminates the Executive's employment for Cause (as defined below) or the Executive terminates his employment without Good Reason (as defined below).

(i) Legal Fees. The Executive shall be reimbursed for his reasonable attorneys' fees and costs incurred in connection with the negotiation and drafting of this Agreement and related legal advice and counsel, not to exceed $5,000; which reimbursement will be made as soon as practicable but in no event later than five (5) business days after the later of the execution of this Agreement and receipt of a detailed invoice with respect to such fees and costs.

3. Termination. During the Term, the Executive's employment hereunder may be terminated without any breach of this Agreement under the following circumstances:

(a) Death. The Executive's employment hereunder shall terminate upon his death.

(b) Disability. The Company may terminate the Executive's employment if he is disabled and unable to perform the essential functions of the Executive's then existing position or positions under this Agreement with or without reasonable accommodation for a period of 180 days (which need not be consecutive) in any 12-month period. If any question shall arise as to whether during any period the Executive is disabled so as to be unable to perform the essential functions of the Executive's then existing position or positions with or without reasonable accommodation, the Executive may, and at the request of the Company shall, submit to the Company a certification in reasonable detail by a physician selected by the Company to whom the Executive or the Executive's guardian has no reasonable objection as to whether the Executive is so disabled or how long such disability is expected to continue, and such certification shall for the purposes of this Agreement be conclusive of the issue. The Executive shall cooperate with any reasonable request of the physician in connection with such certification. If such question shall arise and the Executive shall fail to submit such certification, the Company's determination of such issue shall be binding on the Executive. Nothing in this Section 3(b) shall be construed to waive the Executive's rights, if any, under existing law including, without limitation, the Family and Medical Leave Act of 1993, 29 U.S.C. §2601 *et seq*. and the Americans with Disabilities Act, 42 U.S.C. §12101 *et seq*. or any similar state or local law.

(c) Termination by Company for Cause. The Company may terminate the Executive's employment hereunder for Cause by a vote of the Board at a meeting of the Board called and held for such purpose. For purposes of this Agreement, "Cause" shall mean: (i) the Executive's continued non-compliance with the lawful, reasonable and good faith written directives from the Board, which non-compliance has continued for 30 days following the Executive's receipt of written notice from the Board of such non-compliance; (ii) the Executive's acts or omissions constituting material misconduct in connection with the performance of his duties, including misappropriation of funds or property of the Company (other than the occasional, customary and de minimis use of Company property for personal purposes), which misconduct the Executive fails to cure within 30 days following the Executive's receipt of written notice from the Board of such misconduct; (iii) the conviction of the Executive for any felony or a misdemeanor involving moral turpitude or fraud, which conduct by the Executive results or is reasonably expected to result (as determined by the Board in good faith) in injury or reputational harm to the Company or in the Executive being unable to satisfactorily perform his duties to the Company; (iv) non-performance by the Executive of his duties to the Company (other than by reason of the Executive's physical or mental illness, incapacity or disability or permissible absence) which non-performance has continued for 30 days following the Executive's receipt of written notice from the Board of such non-performance; or (v) a material breach by the Executive of any of the Executive's material obligations under this Agreement and/or of any fiduciary duties owed by Executive to the Company, which breach the Executive fails to cure within 30 days following the Executive's receipt of written notice from the Board of such breach. To the extent notice and cure opportunities are required pursuant to the foregoing, Cause for termination shall not be deemed to exist if the applicable conduct or condition has been cured or discontinued (as applicable) prior to expiration of the applicable post-notice cure period.

(d) Termination Without Cause. The Company may terminate the Executive's employment hereunder at any time without Cause, subject to the advance notice requirements in Section 3(g). Any termination by the Company of the Executive's employment under this Agreement which does not constitute a termination for Cause under Section 3(c) and does not result from the death or disability of the Executive under Section 3(a) or (b) shall be deemed a termination without Cause. For the avoidance of doubt, a termination due to the Company's electing (pursuant to Section 1(a)) not to renew/extend the then-current Initial Term or one-year renewal period (as applicable) for a subsequent year shall be deemed to be and treated as a termination by the Company without Cause (including, without limitation, for purposes of Sections 4 and 5) and which termination shall be effective upon the scheduled expiration of the then-current Initial Term or one-year renewal period (as applicable).

(e) Termination by the Executive. The Executive may terminate his employment hereunder at any time for any reason, including but not limited to Good Reason, subject to the advance notice requirements in Section 3(g) and, if applicable, the Good Reason Process described herein. For purposes of this Agreement, "Good Reason" shall mean that the Executive has complied with the "Good Reason Process" (hereinafter defined) following the occurrence of any of the following events (each a "Good Reason Condition"): (i) a material diminution in the Executive's responsibilities, authority or duties; (ii) a material diminution in the Executive's Base Salary, Minimum Bonus, Target Annual Bonus, and/or Target Grant; (iii) a material change in the geographic location at which the Executive provides services to the Company (including, without limitation, requiring the Executive to relocate to the Company's Minnesota offices or other successor location where the Company may hereafter maintain it offices); or (iv) the material breach of this Agreement by the Company. For the avoidance of doubt, the Company's hiring of a new Chief Executive Officer, whether with or without the Executive's participation, cooperation or consent, shall constitute a Good Reason Condition (which shall be deemed to occur on the first day of such new Chief Executive Officer's employment). "Good Reason Process" shall mean that (i) the Executive reasonably determines in good faith that a "Good Reason" condition has occurred; (ii) the Executive notifies the Company in writing of the occurrence of the Good Reason Condition within 90 days of the first occurrence of such Good Reason Condition; (iii) the Executive cooperates in good faith with the Company's efforts, for a period of 30 days following such notice (the "Cure Period"), to remedy the Good Reason Condition; (iv) notwithstanding such efforts, the Good Reason Condition continues to exist; and (v) the Executive terminates his employment within 90 days after the end of the Cure Period. If the Company cures the Good Reason Condition during the Cure Period, Good Reason shall be deemed not to have occurred.

(f) Notice of Termination. Except for termination as specified in Section 3(a), any termination of the Executive's employment by the Company or any such termination by the Executive shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon.

(g) Date of Termination. "Date of Termination" shall mean: (i) if the Executive's employment is terminated by his death, the date of his death; (ii) if the Executive's employment is terminated on account of disability under Section 3(b) or by the Company for Cause under Section 3(c), the date on which Notice of Termination is given; (iii) if the Executive's employment is terminated by the Company without Cause under Section 3(d), 30 days after the date on which a Notice of Termination is given; (iv) if the Executive's employment is terminated by the Executive under Section 3(e) without Good Reason, 30 days after the date on which a Notice of Termination is given, (v) if the Executive's employment is terminated by the Executive under Section 3(e) with Good Reason, the date on which a Notice of Termination is given after the end of the Cure Period, and (vi) if the Executive's employment terminates due to expiration of the Term (i.e., due to election of non-renewal by either the Company or the Executive pursuant to Section 1(a)), the scheduled expiration date of the then current Initial Term or one-year renewal period (as applicable).

4. Compensation Upon Termination.

(a) Termination Generally. If the Executive's employment with the Company is terminated for any reason, the Company shall pay or provide to the Executive (or to his authorized representative or estate) (i) any Base Salary earned through the Date of Termination (paid on or before the time required by law but in no event more than 30 days after the Date of Termination), (ii) if the Date of Termination occurs following the end of a given calendar year, but prior to payment of the Annual Bonus with respect to such year, the Annual Bonus payable for such prior calendar year (paid in accordance with Section 2(b)(i)); (iv) if applicable under Section 2(b)(i), the Pro-Rata Bonus for the year during which the Date of Termination occurs (paid at the time the Company pays bonuses with respect to such year); (v) unpaid expense reimbursements (subject to, and in accordance with, Sections 2(d), 2(f) and 2(i) of this Agreement) and, if applicable under Section 2(h), unused vacation that accrued through the Date of Termination (paid on or before the time required by law but in no event more than 30 days after the Date of Termination); and (vi) any vested benefits the Executive may have under any Executive Benefit Plan or other employee benefit plan of the Company through the Date of Termination, which vested benefits shall be paid and/or provided in accordance with the terms of such benefit plans (collectively, the "Accrued Benefits").

(b) Termination by the Company Without Cause or by the Executive with Good Reason. During the Term, if the Executive's employment is terminated by the Company without Cause as provided in Section 3(d) or the Executive terminates his employment for Good Reason as provided in Section 3(e), then the Company shall pay the Executive his Accrued Benefits (as provided in Section 4(a) above). In addition, subject to the Executive signing a full and final release of all releasable claims in favor of the Company and related persons and entities in a reasonable form and manner reasonably satisfactory to the Company (the "Release") and the expiration of the applicable revocation period for the Release:

(i) the Company shall pay the Executive an amount equal to two (2) times the sum of (x) the Executive's Base Salary and (y) the Executive's Target Annual Bonus (i.e., 100% of the Target Annual Bonus amount as if employed for the full year and all applicable performance metrics had been fully achieved) (the "Severance Amount"). The Severance Amount shall be paid out in a cash lump sum payment within 60 days after the Date of Termination; provided, however, that if the 60-day period begins in one calendar year and ends in a second calendar year, the lump sum payment of the Severance Amount shall be paid in the second calendar year (but prior to the end of the 60-day period). Each payment pursuant to this Agreement is intended to constitute a separate payment for purposes of Treasury Regulation Section 1.409A-2(b)(2);

(ii) effective upon the Date of Termination, all stock options and other stock-based awards (including, without limitation, all such awards/grants under Section 2(b)(ii) and 2(c)) held by the Executive and all yet unvested portions thereof shall immediately and fully accelerate and vest and become exercisable or nonforfeitable as of the Date of Termination (to the extent that the Release is not effective as of the Date of Termination, the Company shall take all necessary corporate action to ensure that no such stock-based awards terminate or are forfeited by the Executive from the Date of Termination until the date such accelerated vesting and/or exercisability becomes effective); and

(iii) if the Annual Grant had not been made with respect to the year in which the Date of Termination occurs, the Company shall grant to the Executive on the Date of Termination such number of shares of common stock with an aggregate fair market value on the Date of Termination equal to 200 percent of the Executive's Base Salary (which grant shall be fully vested on the Date of Termination); and

(iv) if the Executive was participating in the Company's group health plan immediately prior to the Date of Termination, then the Company shall pay to the Executive a monthly cash payment for eighteen (18) months equal to the monthly premiums for the continuation of such coverage (for the Executive and, as applicable, his spouse and eligible dependents) pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (COBRA) or similar state law; or, if the Executive (and his spouse and dependents, as applicable) was/were covered by the Executive's own health insurance the premiums for which the Executive was being reimbursed pursuant to Section 2(f) above, then the Company shall pay to the Executive a monthly cash payment for eighteen (18) months equal to the monthly premiums for such insurance coverage.

5. Change in Control Payment. The provisions of this Section 5 set forth certain terms of an agreement reached between the Executive and the Company regarding the Executive's rights and obligations upon the occurrence of a Change in Control of the Company. These provisions are intended to assure and encourage in advance the Executive's continued attention and dedication to his assigned duties and his objectivity during the pendency and/or after the occurrence of any such event. These provisions shall apply in lieu of, and expressly supersede, the provisions of Section 4(b) regarding severance pay and benefits upon a termination of employment, if such termination of employment occurs in connection with or within eighteen (18) months after the occurrence of the first event constituting a Change in Control. These provisions shall terminate and be of no further force or effect beginning eighteen (18) months after the occurrence of a Change in Control if the Executive remains employed with the Company through and at such time.

(a) Change in Control. In the event of a Change in Control:

(i) notwithstanding anything to the contrary in any applicable option agreement or stock-based award agreement, all stock options and other stock-based awards held by the Executive (including, without limitation, all such awards/grants under Section 2(b)(ii) and 2(c)) and all yet unvested portions thereof shall immediately and fully accelerate and vest and become fully exercisable or nonforfeitable as of immediately prior to the closing or occurrence (as applicable) of the event constituting the Change in Control; and

(ii) if, in connection with or within eighteen (18) months after a Change in Control, the Executive's employment is terminated by the Company without Cause as provided in Section 3(d) or the Executive terminates his employment for any reason, subject to the signing of the Release by the Executive and the expiration of the applicable revocation period for the Release:

(A) the Company shall pay the Executive a lump sum in cash in an amount equal to three (3) times the sum of (A) the Executive's current Base Salary (or the Executive's Base Salary in effect immediately prior to the Change in Control, if higher) plus (B) the Executive's Target Annual Bonus (or the Executive's Target Annual Bonus in effect immediately prior to the Change in Control, if higher). Such payment shall be paid within 60 days after the Date of Termination; provided, however, that if the 60-day period begins in one calendar year and ends in a second calendar year, such payment shall be paid in the second calendar year (but prior to the end of the 60-day period);

(B) to the extent not covered by and accelerated pursuant to Section 5(a)(i) above, effective upon the Date of Termination all stock options and other stock-based awards (including, without limitation, all such awards/grants under Section 2(b)(ii))) held by the Executive and all yet unvested portions thereof shall immediately and fully accelerate and vest and become exercisable or nonforfeitable as of the Date of Termination (to the extent that the Release is not effective as of the Date of Termination, the Company shall take all necessary corporate action to ensure that no such stock-based awards terminate or are forfeited by the Executive from the Date of Termination until the date such accelerated vesting and/or exercisability becomes effective);

(C) if the Annual Grant had not been made with respect to the year in which the Date of Termination occurs, the Company shall grant to the Executive on the Date of Termination such number of shares of common stock with an aggregate fair market value on the Date of Termination equal to 200 percent of the Executive's Base Salary (which grant shall be fully vested on the Date of Termination); and

(D) if the Executive was participating in the Company's group health plan immediately prior to the Date of Termination, then the Company shall pay to the Executive a monthly cash payment for eighteen (18) months equal to the monthly premiums for the continuation of such coverage (for the Executive and, as applicable, his spouse and eligible dependents) pursuant to COBRA or similar state law; or, if the Executive (and his spouse and dependents, as applicable) was/were covered by the Executive's own health insurance the premiums for which the Executive was being reimbursed pursuant to Section 2(f) above, then the Company shall pay to the Executive a monthly cash payment for eighteen (18) months equal to the monthly premiums for such insurance coverage.

(b) Gross-Up Payment.

(i) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that the amount of any compensation, payment or distribution by the Company to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, calculated in a manner consistent with Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") and the applicable regulations thereunder (the "Severance Payments"), would be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment or payments (collectively, the "Gross-Up Payment") such that the net amount retained by the Executive, after deduction of any Excise Tax on the Severance Payments, any Federal, state, and local income tax, employment tax and Excise Tax upon the payment provided by this Section, and any interest and/or penalties assessed with respect to such Excise Tax, shall be equal to the Severance Payments.

(ii) Subject to the provisions of Section 5(b)(iii) below, all determinations required to be made under this Section 5(b)(ii), including whether a Gross-Up Payment is required and the amount of such Gross-Up Payment, shall be made by a nationally recognized accounting firm selected by the Company (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the Date of Termination, if applicable, or at such earlier time as is reasonably requested by the Company or the Executive. For purposes of determining the amount of the Gross-Up Payment, the Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation applicable to individuals for the calendar year in which the Gross-Up Payment is to be made, and state and local income taxes at the highest marginal rates of individual taxation in the state and locality of the Executive's residence on the Date of Termination, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes. The Gross-Up Payment, if any, as determined pursuant to this Section 5(b)(ii), shall be paid to the relevant tax authorities as withholding taxes on behalf of the Executive at such time or times when each Excise Tax payment is due. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"). In the event that the Company exhausts its remedies pursuant to Section 5(b)(iii) below and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred, consistent with the calculations required to be made hereunder, and any such Underpayment, and any interest and penalties imposed on the Underpayment and required to be paid by the Executive in connection with the proceedings described in Section 5(b)(iii) below, shall be promptly paid by the Company to the relevant tax authorities as withholding taxes on behalf of the Executive.

(iii) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive knows of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which he gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, provided that the Company has set aside adequate reserves to cover the Underpayment and any interest and penalties thereon that may accrue, the Executive shall:

(A) give the Company any information reasonably requested by the Company relating to such claim,

(B) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Company,

(C) cooperate with the Company in good faith in order to effectively contest such claim, and

(D) permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such representation and payment of costs and expenses.

(iv) If, after a Gross-Up Payment by the Company on behalf of the Executive pursuant to this Section 5(b), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 5(b)(iii)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto).

(c) Definitions. For purposes of this Section 5, the following terms shall have the following meanings:

"Change in Control" shall mean any of the following:

(i) there is consummated a merger, consolidation, statutory exchange or reorganization, unless securities representing more than fifty percent (50%) of the total combined voting power of the outstanding voting securities of the successor corporation are immediately thereafter beneficially owned directly or indirectly and in substantially the same proportion, by the persons who beneficially owned the Company's outstanding voting securities immediately prior to such transaction; or

(ii) any transaction or series of related transactions pursuant to which any person or any group of persons comprising a "group" within the meaning of Rule 13d-5(b)(1) under the Securities Exchange Act of 1934, as amended (other than the Company or a person that, prior to such transaction or series of related transactions, directly or indirectly controls, is controlled by or is under common control with the Company) becomes directly or indirectly the beneficial owner (within the meaning of Rule 13d-3 of the Securities Exchange Act of 1934, as amended) of securities possessing (or convertible into or exercisable for securities possessing) thirty percent (30%) or more of the total combined voting power of the securities (determined by the power to vote with respect to the elections of Board members) outstanding immediately after the consummation of such transaction or series of related transactions, whether such transaction involves a direct issuance from the Company or the acquisition of outstanding securities held by one or more of the Company's shareholders; or

(iii) there is consummated a sale, lease, exclusive license, or other disposition of all or substantially all of the consolidated assets of the Company and its subsidiaries, other than a sale, lease, license, or other disposition of all or substantially all of the consolidated assets of the Company and its subsidiaries to an entity, more than fifty percent (50%) of the combined voting power of the voting securities of which are owned by shareholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale, lease, license, or other disposition; or

(iv) individuals who, on the date of this Agreement, are members of the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the members of the Board; provided, however, that if the appointment or election (or nomination for election) of any new director was approved or recommended by a majority vote of the members of the Incumbent Board then still in office, such new director shall, for purposes of sentence, be considered as a member of the Incumbent Board.

Notwithstanding the foregoing, (A) a "Change in Control" shall not be deemed to have occurred for purposes of the foregoing clause (ii) solely as the result of the acquisition of additional securities by Dr. Samuel Herschkowitz, Joshua Kornberg or their affiliates; and (B) a "Change in Control" shall not be deemed to have occurred for purposes of the foregoing clause (ii) solely as the result of a repurchase or other acquisition of securities by the Company which, by reducing the number of shares of Voting Securities outstanding, increases the proportionate number of Voting Securities beneficially owned by any person to thirty percent (30%) or more of the combined voting power of all of the then outstanding Voting Securities; provided, however, that if any person referred to in this clause (B) shall thereafter become the beneficial owner of any additional shares of Voting Securities (other than pursuant to a stock split, stock dividend, or similar transaction or as a result of an acquisition of securities directly from the Company) and immediately thereafter beneficially owns thirty percent (30%) or more of the combined voting power of all of the then outstanding Voting Securities, then a "Change in Control" shall be deemed to have occurred for purposes of the foregoing clause (ii).

6. Section 409A.

(a) Anything in this Agreement to the contrary notwithstanding, if at the time of the Executive's separation from service within the meaning of Section 409A of the Code, the Company determines that the Executive is a "specified employee" within the meaning of Section 409A(a)(2)(B)(i) of the Code, then to the extent any payment or benefit that the Executive becomes entitled to under this Agreement on account of the Executive's separation from service would be considered deferred compensation otherwise subject to the 20 percent additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, such payment shall not be payable and such benefit shall not be provided until the date that is the earlier of (A) six months and one day after the Executive's separation from service, or (B) the Executive's death. If any such delayed cash payment is otherwise payable on an installment basis, the first payment shall include a catch-up payment covering amounts that would otherwise have been paid during the six-month period but for the application of this provision, and the balance of the installments shall be payable in accordance with their original schedule. Any such delayed cash payment shall earn interest at an annual rate equal to the applicable federal short-term rate published by the Internal Revenue Service for the month in which the date of separation from service occurs, from such date of separation from service until the payment.

(b) All in-kind benefits provided and expenses eligible for reimbursement under this Agreement shall be provided by the Company or incurred by the Executive during the time periods set forth in this Agreement. All reimbursements shall be paid as soon as administratively practicable, but in no event shall any reimbursement be paid after the last day of the taxable year following the taxable year in which the expense was incurred. The amount of in-kind benefits provided or reimbursable expenses incurred in one taxable year shall not affect the in-kind benefits to be provided or the expenses eligible for reimbursement in any other taxable year (except for any lifetime or other aggregate limitation applicable to medical expenses). Such right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit.

(c) To the extent that any payment or benefit described in this Agreement constitutes "non-qualified deferred compensation" under Section 409A of the Code, and to the extent that such payment or benefit is payable upon the Executive's termination of employment, then such payments or benefits shall be payable only upon the Executive's "separation from service." The determination of whether and when a separation from service has occurred shall be made in accordance with the presumptions set forth in Treasury Regulation Section 1.409A-1(h).

(d) The parties intend that this Agreement will be administered in accordance with Section 409A of the Code. To the extent that any provision of this Agreement is ambiguous as to its compliance with Section 409A of the Code, the provision shall be read in such a manner so that all payments hereunder comply with Section 409A of the Code. Each payment pursuant to this Agreement is intended to constitute a separate payment for purposes of Treasury Regulation Section 1.409A-2(b)(2). The parties agree that this Agreement may be amended, as reasonably requested by either party, and as may be necessary to fully comply with Section 409A of the Code and all related rules and regulations in order to preserve the payments and benefits provided hereunder without additional cost to either party.

7. Confidential Information and Noncompetition.

(a) Confidential Information. As used in this Agreement, "Confidential Information" includes, without limitation, all patterns, compilations, programs, and know how; designs, processes or formulae; software; market or sales information or plans, devices, methods, concepts, techniques, processes, source codes, data capture innovations, algorithms, user interface designs and database designs relating to the Company's products, services, systems or business; information acquired or compiled by the Company concerning actual or potential clients/customers, suppliers and business partners, including their identities, financial information concerning their actual or prospective business operations, identity and quantity of services and/or products provided by the Company, and any unpublished written materials furnished by or about them to the Company; and information concerning the Company's ownership, management, financial condition, financial operations, business activities or practices, sales activities, marketing activities or plans, research and development, pricing practices, legal matters, and strategic business plans. Notwithstanding the foregoing, Confidential Information does not include information in the public domain or generally known in the industry (unless due to breach of the Executive's duties under Section 7(b)) or readily ascertainable from publicly available sources.

(b) Confidentiality. The Executive understands and agrees that the Executive's employment creates a relationship of confidence and trust between the Executive and the Company with respect to all Confidential Information. At all times, both during the Executive's employment with the Company and after Executive's termination, the Executive will keep in confidence and trust all such Confidential Information, and will not use or disclose any such Confidential Information without the written consent of the Company, except as may be necessary in the ordinary course of performing the Executive's duties to the Company or as may be required by law or legal process. The Executive agrees to take reasonable security measures to prevent accidental or unauthorized disclosure of Confidential Information.

(c) Documents, Records, etc. All documents, records, data, apparatus, equipment and other physical property, whether or not pertaining to Confidential Information, which are furnished to the Executive by the Company or are produced by the Executive in connection with the Executive's employment will be and remain the sole property of the Company. The Executive will return to the Company (and not retain) all such materials and property as and when requested by the Company. In any event, the Executive will return all such materials and property immediately upon termination of the Executive's employment for any reason. The Executive will not retain with the Executive any such material or property or any copies thereof after such termination except as authorized.

(d) Noncompetition and Nonsolicitation. During the Executive's employment with the Company and for twelve (12) months thereafter, regardless of the reason for the termination, the Executive (i) will not, directly or indirectly, whether as owner, partner, shareholder, consultant, agent, employee, co-venturer or otherwise, engage, participate, assist or invest in any Competing Business (as hereinafter defined); (ii) will not directly or indirectly employ, attempt to employ, recruit or otherwise solicit, induce or influence any person to leave employment with the Company (other than terminations of employment of subordinate employees undertaken in the course of the Executive's employment with the Company); and (iii) will not solicit, contact, sell to, provide services to, work with, or attempt to divert, take away or induce clients or prospective clients of the Company with whom the Executive worked, solicited, marketed, or obtained confidential information about during the Executive's employment with the Company, regarding services or products that are competitive with any of the Company's services or products. For purposes of this Agreement, the term "Competing Business" shall mean a business conducted anywhere in the United States which is competitive with the Company in regard to the business of developing, marketing, manufacturing, licensing and selling medical devices dedicated to fluid management in medical environments (including operating rooms, emergency rooms, day surgery centers, patient rooms and ambulances) which devices are similar to, perform the same function(s) as or could be used as a reasonable replacement or substitute for the device(s)/product(s) of the Company (which were in existence or being developed by the Company during the Executive's employment with the Company). Notwithstanding the foregoing, the Executive may own up to one percent (1%) of the outstanding stock of a publicly held corporation which constitutes or is affiliated with a Competing Business, and nothing herein shall preclude the Executive from performing work for or providing services to a person, company or other entity (not primarily engaged in a Competing Business) which among his/her or its businesses includes a division, section, sub-part, subsidiary or affiliated entity engaged in a Competing Business provided that the Executive is not directly or indirectly involved in any of the aspects, businesses, divisions, sections, sub-parts, subsidiaries or affiliated entities of such person, company or entity which is/are engaged in a Competing Business.

The Company is providing the Executive with adequate and valuable consideration to compensate the Executive for the reasonable restrictions on the Executive's post-employment competitive activities contained within this Agreement. The Executive hereby acknowledges the consideration and that the consideration constitutes adequate and sufficient consideration for the restrictive covenants in this Agreement. The Executive agrees that the restrictions set forth in this Agreement are reasonable considering the Executive's position. If any of the above restrictions are deemed by a court of competent jurisdiction to be unreasonable in duration or in geographical scope, it will be considered modified and valid for such duration and geographical scope as the court determines to be reasonable under the circumstances. The duration of the above restrictions will be extended beyond the twelve (12) month period for a period equal to the duration of any breach or default of such covenant by the Executive. Upon terminating employment with the Company (for whatever reason), the Executive has an affirmative obligation to inform any prospective employer and/or actual employer of the Executive's post-employment obligations contained within this Agreement including the Executive's non-competition and non-solicitation obligations. The Executive understands that the restrictions set forth in this Section 7(d) are intended to protect the Company's interests including, but not limited to, its Confidential Information, established and potential employment relationships, customer and prospective customer relationships, supplier relationships, and goodwill. The Executive agrees that such restrictions are reasonable and appropriate for this purpose.

(e) Injunction. The Executive agrees that it could be difficult to measure any damages caused to the Company which might result from any breach by the Executive of the promises set forth in this Section 7, and that in any event money damages could be an inadequate remedy for any such breach. Accordingly, the Executive agrees that if the Executive breaches, or proposes to breach, any portion of this Section 7, the Company shall be entitled, in addition to all other remedies that it may have, to seek an injunction or other appropriate equitable relief to restrain any such breach.

8. Integration. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements between the parties concerning such subject matter.

9. Withholding. All payments made by the Company to the Executive under this Agreement shall be net of any tax or other amounts required to be withheld by the Company under applicable law.

10. Successor to the Executive. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal representatives, executors, administrators, heirs, distributees, devisees and legatees. In the event of the Executive's death after his termination of employment but prior to the completion by the Company of all payments due him under this Agreement, the Company shall continue such payments to the Executive's beneficiary designated in writing to the Company prior to his death (or to his estate, if the Executive fails to make such designation).

11. Enforceability. If any portion or provision of this Agreement (including, without limitation, any portion or provision of any section of this Agreement) shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

12. Survival. The provisions of this Agreement shall survive the termination of this Agreement, the Term and/or the termination of the Executive's employment to the extent necessary to effectuate the terms contained herein.

13. Waiver. No waiver of any provision hereof shall be effective unless made in writing and signed by the waiving party. The failure of any party to require the performance of any term or obligation of this Agreement, or the waiver by any party of any breach of this Agreement, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.

14. Notices. Any notices, requests, demands and other communications provided for by this Agreement shall be sufficient if in writing and delivered in person or sent by a nationally recognized overnight courier service or by registered or certified mail, postage prepaid, return receipt requested, to the Executive at the last address the Executive has filed in writing with the Company or, in the case of the Company, at its main offices, addressed to the attention of the Board.

15. Amendment. This Agreement may be amended or modified only by a written instrument signed by the Executive and by a duly authorized representative of the Company.

16. Governing Law. This Agreement shall be construed under and be governed in all respects by the laws of the State of Minnesota, without giving effect to the conflict of laws principles. With respect to any disputes concerning federal law, such disputes shall be determined in accordance with the law as it would be interpreted and applied by the United States Court of Appeals for the Eighth Circuit.

17. Counterparts. This Agreement may be executed in any number of counterparts (including by electronic exchange of signed copies via fax or .pdf copies via e-mail), each of which when so executed and delivered shall be taken to be an original; but such counterparts shall together constitute one and the same document.

18. Successor to Company. The benefits and obligations of this Agreement shall inure to the successors and assigns of the Company, to any person or entity which purchases substantially all of the assets of the Company, and to any subsidiary, affiliated corporation, or operating division of the Company. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company expressly to assume and agree to perform this Agreement to the same extent that the Company would be required to perform it if no succession had taken place. Failure of the Company to obtain an assumption of this Agreement at or prior to the effectiveness of any succession shall be a material breach of this Agreement.

19. Gender Neutral. Wherever used herein, a pronoun in the masculine gender shall be considered as including the feminine gender unless the context clearly indicates otherwise.

[*Remainder of this page intentionally left blank. Signature page(s) immediately follow.*]

IN WITNESS WHEREOF, the parties have executed this Agreement on the date and year first above written.

BIODRAIN MEDICAL, INC.

By: /s/ Bob Myers

Its: Chief Financial Officer

JOSH KORNBERG

By: /s/ Josh Kornberg
Josh Kornberg

Exhibit 10.36

BIODRAIN MEDICAL, INC.
NON-QUALIFIED STOCK OPTION AGREEMENT

This STOCK OPTION AGREEMENT (the "Agreement") is made and entered into effective as of the 13th day of August, 2012, between BioDrain Medical, Inc., a Minnesota corporation (the "Company") and Joshua Kornberg ("Employee").

BACKGROUND

A. Employee has either been hired to serve as an employee to the Company or the Company desires to induce Employee to continue to serve the Company as an employee.

B. The Company has adopted the 2012 Stock Incentive Plan (the "Plan"), pursuant to which shares of common stock of the Company have been reserved for issuance under the Plan.

NOW, THEREFORE, the parties hereto agree as follows:

1. Grant of Option; Purchase Price. Subject to the terms and conditions herein set forth, the Company hereby irrevocably grants from the Plan to Employee the right and option, hereinafter called the "Option", to purchase all or any part of an aggregate of the number of shares of common stock, $0.01 par value, of the Company (the "Shares") set forth at the end of this Agreement after "Number of Shares" at the price per Share set forth at the end of this Agreement after "Purchase Price."

2. Exercise and Vesting of Option. The Option shall be exercisable only to the extent that all, or any portion thereof, has vested in Employee. Except as provided herein in Section 3, the Option shall vest immediately with respect to 6,000,000 shares (each such date is hereinafter referred to singularly as a "Vesting Date" and collectively as "Vesting Dates").

3. Termination of Employment. Except as provided in Section 5 below, in the event that Employee ceases to be employed by the Company, for any reason or no reason, with or without cause, prior to any Vesting Date, that part of the Option scheduled to vest on such Vesting Date, and all parts of the Option scheduled to vest in the future, shall not vest and all of Employee's rights to and under such non-vested parts of the Option shall terminate.

4. Term of Option. To the extent vested, and except as otherwise provided in this Agreement, the Option shall be exercisable for ten (10) years from the date of this Agreement; provided, however, that, except as provided in Section 5(a) below, in the event Employee ceases to be employed by the Company, for any reason or no reason, Employee or his/her legal representative shall have three (3) months from the date of such termination of his/her position as an employee to exercise any part of the Option vested pursuant to Section 3 of this Agreement. Upon the expiration of such three (3) month period, except as provided in Section 5, or, if earlier, upon the expiration date of the Option as set forth above, the Option shall terminate and become null and void.

5 . Death of Employee. In the event of Employee's death, the person designated in Employee’s will, or in the absence of such designation, Employee's legal representative may, in like manner, exercise the Option to the extent of the number of Shares which were vested at the time of his/her death, but such right shall expire unless exercised by such designated person or legal representative within the earlier of (i) six (6) months after the death of Employee, or (ii) the expiration of the Option.

6. Change in Control. “Change in Control” has the meaning provided in the Plan. Notwithstanding anything to the contrary contained herein, in the event of a Change in Control of the Company, the Option shall become fully vested upon the effective date of such event, and shall remain exercisable for the remainder of the term of the Option.

7. Method of Exercising Option. Subject to the terms and conditions of this Agreement and the Plan, the Option may be exercised, in whole or in part, by written notice to the Company. Such notice shall state the election to exercise the Option, the number of Shares in respect of which it is being exercised, the method of exercise, and shall be signed by the person or persons exercising the Option. The Employee may exercise the Option by (i) paying to the Company in cash the full exercise price; (ii) arranging for a broker to sell Shares and immediately thereafter pay to the Company the full exercise price; or (iii) delivering Shares previously owned by Employee, the total market value of which equals the full exercise. Applicable tax withholding may be paid by any method permitted under the Plan. Upon proper exercise, the Company shall deliver a certificate or certificates representing such Shares as soon as practicable after the notice shall be received. All Shares that shall be purchased upon the exercise of the Option as provided herein shall be fully paid and non-assessable.

8 . Rights of Option Holder. Employee, as holder of the Option, shall not have any of the rights of a shareholder with respect to the Shares covered by the Option except to the extent that one or more certificates for such Shares shall be delivered to him or her upon the due exercise of all or any part of the Option.

9 . Limitations on Transferability. The Option shall not be transferred, pledged or assigned except, in the event Employee's death, by will or the laws of descent and distribution to the limited extent provided in the Plan, or pursuant to a qualified domestic relations order as defined by the Internal Revenue Code of 1986, as amended (the “Code”) or Title I of the Employee Retirement Income Security Act, or the rules there under, and the Company shall not be required to recognize any attempted assignment of such rights. Notwithstanding the preceding sentence, the Option may be transferred by Employee to Employee's spouse, children, grandchildren or parents (collectively, the “Family Members”), to trusts for the benefit of Family Members, to partnerships or limited liability companies in which Family Members are the only partners or shareholders, or to entities exempt from federal income taxation pursuant to Section 501(c)(3) of the Code. During Employee's lifetime, the Option may be exercised only by him or her, by his/her guardian or legal representative or by the transferees permitted by the preceding sentence.

10. No Continued Employment or Right to Corporate Assets. Nothing contained in this Agreement shall be deemed to grant Employee any right to continue in the employ of the Company for any period of time or to any right to continue his/her present or any other rate of compensation, nor shall this Agreement be construed as giving Employee, Employee's beneficiaries or any other person any equity or interests of any kind in the assets of the Company or creating a trust of any kind or a fiduciary relationship of any kind between the Company and any such person.

11. Securities Law Matters. Employee acknowledges that the Shares to be received by him or her upon exercise of the Option may not have been registered under the Securities Act of 1933 or the Blue Sky laws of any state (collectively, the "Acts"). If such Shares have not been so registered, Employee acknowledges and understands that the Company is under no obligation to register, under the Acts, the Shares received by him or her or to assist him or her in complying with any exemption from such registration if he or she should at a later date wish to dispose of the Shares. Employee acknowledges that if not then registered under the Acts, the Shares shall bear a legend restricting the transferability thereof, such legend to be substantially in the following form:

> "The shares represented by this certificate have not been registered or qualified under federal or state securities laws. The shares may not be offered for sale, sold, pledged or otherwise disposed of unless so registered or qualified, unless an exemption exists or unless such disposition is not subject to the federal or state securities laws, and the Company may require that the availability or any exemption or the inapplicability of such securities laws be established by an opinion of counsel, which opinion of counsel shall be reasonably satisfactory to the Company."

12. Employee Representations. Employee hereby represents and warrants that Employee has reviewed with his/her own tax advisors the federal, state, and local tax consequences of the transactions contemplated by this Agreement. Employee is relying solely on such advisors and not on any statements or representation of the Company or any of its agents. Employee understands that he or she will be solely responsible for any tax liability that may result to him or her as a result of the transactions contemplated by this Agreement. The Option, if exercised, will be exercised for investment and not with a view to the sale or distribution of the Shares to be received upon exercise thereof.

13. General.

(a) The Option is granted pursuant to the Plan and is governed by the terms thereof. In the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall control. The Company shall at all times during the term of the Option reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of this Agreement.

(b) Nothing herein expressed or implied is intended or shall be construed as conferring upon or giving to any person, firm, or corporation other than the parties hereto, any rights or benefits under or by reason of this Agreement.

(c) Each party hereto agrees to execute such further documents as may be necessary or desirable to affect the purposes of this Agreement.

(d) 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 agreement.

(e) This Agreement, in its interpretation and effect, shall be governed by the laws of the State of Minnesota applicable to contracts executed and to be performed therein.

[Signature page follows]

[Signature page to Non-Qualified Stock Option Agreement]

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first written above.

NUMBER OF SHARES:	**BIODRAIN MEDICAL, INC**.
6,000,000	By /s/ Bob Myers Its Chief Financial Officer
PURCHASE PRICE:	**EMPLOYEE:**
$.08 per share	By Josh Kornberg
	DATE: August 13, 2012

Exhibit 10.37

EMPLOYMENT AGREEMENT

This Agreement made and entered into effective the 11th day of August, 2012 by and between Robert Myers, an individual residing at 4765 Beacon Hill Road, Eagan, Minnesota 55122 ("Employee"), and BioDrain Medical, Inc., 2915 Commers Drive, Suite 900, Eagan, Minnesota 55121, a Minnesota corporation ("Company"), collectively referred to as "the Parties".

WITNESSETH:

WHEREAS, Company desires to employ Employee to render services for Company as its Chief Financial Officer on the terms and conditions hereinafter set forth, and Employee desires to be employed by 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. **Employee's Acknowledgment and Certifications**. Employee hereby represents and certifies that Employee is not subject to any other agreement or restrictive covenant that Employee violates by working with Company. Further, Employee represents that no conflict of interest or breach of Employee's fiduciary duties will result by working with and performing duties for Company. Employee further agrees and certifies that Employee will not use or disclose to Company any confidential, proprietary or trade secret information belonging to another individual or entity which may not properly be used or disclosed by Employee to Company.

2. **Employment and Term**. Company hereby employs Employee and Employee hereby accepts employment with Company upon the terms and conditions of this Agreement. Employee's employment with Company is at-will and will commence on 1 July 2012. This Agreement does not modify the at-will nature of Employee's employment nor is it intended to guarantee Employee a specific term of employment with Company. Either Employee or Company may terminate the employment relationship at any time, for any lawful reason. Employee agrees to abide by all Company rules, policies, and procedures.

3. **Duties**. Employee shall have the title of Chief Financial Officer. Employee will devote Employee's full working time, attention, loyalty, skills and efforts to diligently perform all the duties, responsibilities, and requirements assigned to Employee while employed by Company. Employee's title, position and duties are at all times subject to change at Company's sole discretion.

4. **Compensation**.

    a. **Base Salary.** Employee will receive an initial annualized base salary of $125,000 (gross, less applicable legally required withholdings and such other deductions as Employee voluntarily authorizes in writing). Employee's base salary and other compensation will be subject to review and adjustment by Company at any time, as Company deems appropriate; provided, that Employee's base salary will not be reduced without Employee's consent unless a salary reduction is imposed upon substantially all employees of the Company as part of a general reduction.

b. **Commission. Not Applicable.**

c. **Bonus.** In each calendar year during the term of this Agreement, beginning in calendar year 2012, Employee shall be eligible to receive an annual incentive bonus determined annually at the discretion of the Board, subject to the attainment of certain objectives, which shall be established in writing by the Employee and the Board prior to each bonus period (in the case of 2012, established prior to the date of this Agreement). The maximum bonus that may be earned by Employee for any year will be not less than 150% of Employee's then-current base salary. The minimum bonus that may be earned by Employee for any year will be not less than 20% of Employee's then-current base salary. Any payments made under this Section 5(c) shall be paid within 3 1/2 months of the end of the bonus period, provided that Employee was employed by the Company on the last day of the bonus period.

d. **Stock Options.** The Employee will receive 10 year term non-qualified stock options to purchase 1,000,000 shares of the Company's common stock at $.08 (market value at time of contract) per share pursuant to the 2012 Stock Incentive Plan (the "2012 Plan"). The shares will vest as follows: 700,000 immediately on grant date, August 13, 2012, and the remaining 300,000 shares 18 months from the grant date, February 13, 2014.

e. **Directors & Officers Insurance.** While employed by Company, Employee shall be considered an officer of Company and shall be covered by D&O Insurance, or any other similar type of insurance, that provides coverage for Employee's acts or omissions undertaken during the course and scope of Employee's employment and maintain coverage for Employee for at least three (3) years following Employee's employment.

5. Additional Benefits.

a. **Automobile.** Company shall reimburse Employee for deductible automobile mileage according to its Expense Reporting Procedures.

b. **Business Expenses.** Company will reimburse Employee for all preapproved, reasonable, deductible and substantiated business expenses per its Expense Reporting Procedures. This includes, but is not limited to such expenses as cell phones and business meetings.

c. **Vacation.** Employee will receive two (2) weeks of vacation for 2012. Employee shall thereafter be entitled to four (4) weeks of paid vacation per each calendar year earned ratably over each calendar year, to be taken at such times as Employee and Company shall determine and provided that no vacation time shall unreasonably interfere with the duties required to be rendered by Employee hereunder. Any vacation time not taken by Employee during any calendar year may be carried forward into one succeeding calendar year. Accrued but unused vacation will be paid out to Employee at the time of termination of employment.

d. **Benefits.** Employee will be eligible for the additional benefits as described in Exhibit **[B]**.

6. **Non-Competition**. Employee agrees that while employed by Company and for a period of twelve (12) months after the date Employee's employment with Company terminates, regardless of the reason for termination, Employee will not, without the prior written consent of Company, directly or indirectly, as an employee, owner, consultant or in any other capacity whatsoever, for Employee's own behalf or on behalf of any other person or entity, anywhere in the United States of America:

a. *Prohibition on Competition*. Engage in or render services, directly or indirectly, to any person or organization engaged in or about to become engaged in the development, production, marketing or selling of any product, process or service in existence or under development which is similar to or competes with a product, process or service of Company; or

b. *Company Clients*. Work or perform services as an employee, agent, independent contractor or otherwise, for any client, customer, supplier or business partner of Company with whom Employee worked, solicited, marketed or obtained confidential information about during Employee's employment with Company; or

c. *Non-Solicitation*. (i) Solicit, contact, sell to, provide services to, or attempt to divert, take away or induce clients or prospective clients of Company with whom Employee worked, solicited, marketed, or obtained confidential information about during Employee's employment with Company, regarding services or products that are competitive with any of Company's services or products; or (ii) solicit, divert, take away or induce any employee or independent contractor of Company to leave the employ or service of Company.

Company is providing Employee with adequate and valuable consideration to compensate Employee for the reasonable restrictions on Employee's post-employment competitive activities contained within this Agreement. Employee hereby acknowledges the consideration, Employee's stock option grant and access to certain of Company's proprietary information and goodwill, constitute adequate and sufficient consideration for the restrictive covenants in this Agreement. Employee agrees that the restrictions set forth in this Agreement are reasonable considering Employee's position.

If any of the above restrictions are deemed by a court of competent jurisdiction to be unreasonable in duration or in geographical scope, it will be considered modified and valid for such duration and geographical scope as the court determines to be reasonable under the circumstances. The duration of the above restrictions will be extended beyond the twelve (12) month period for a period equal to the duration of any breach or default of such covenant by Employee. Upon terminating employment with Company (for whatever reason), Employee has an affirmative obligation to inform any prospective employer and/or actual employer, of Employee's post-employment obligations contained within this Agreement including Employee's non-competition and non-solicitation obligations.

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 there from. 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 sublicense) 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 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. **Nondisclosure of Confidential Information.** Employee shall keep confidential and not disclose to anyone or use, either during or after Employee's employment with Company, any Confidential Information of Company, except as required by Employee's employment with Company or as expressly authorized in writing by Company. For the purposes of this Agreement, "Confidential Information" is any and all sensitive, confidential, proprietary and trade secret information concerning or relating to Company and its direct and indirect parents, subsidiaries and/or affiliated organizations, including any information or compilation of information which derives independent economic value from not being generally known to and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use. Examples of Confidential Information not to be disclosed or used except as expressly permitted by Company include, but are not limited to, the following:

a. All patterns, compilations, programs, know how; designs, processes or formulae; software; market or sales information or plans, devices, methods, concepts, techniques, processes, source codes, data capture innovations, algorithms, user interface designs and database designs relating to Company's products, services, systems or business;

b. Information acquired or compiled by Company concerning actual or potential clients/customers, suppliers and business partners, including their identities, financial information concerning their actual or prospective business operations, identity and quantity of services and/or products provided by Company, and any unpublished written materials furnished by or about them to Company; and

c. Information concerning Company's ownership, management, financial condition, financial operations, business activities or practices, sales activities, marketing activities or plans, research and development, pricing practices, legal matters, and strategic business plans.

Employee acknowledges that Company shall at all times be and remain the owner of all Confidential Information disclosed to/acquired by Employee during Employee's employment with Company, and Employee acknowledges that Employee may use the Confidential Information only for the limited purposes for which it was disclosed under this Agreement. Employee shall use his/her best efforts to preserve the confidentiality of such Confidential Information which he/she knows or reasonably should know Company deems to be Confidential Information. Employee agrees that he/she will not knowingly use, disclose or permit the use or disclosure of Company's Confidential Information in any manner which may injure Company's business, impair its investments and goodwill, and/or adversely impact Company's relationships with its actual or potential customers and suppliers. The obligations of this Section shall continue in full force and effect after the termination of this Agreement and the termination of Employee's employment with Company. As used in this Section 8, the term "Company" shall include Company and each of its direct and indirect parent, subsidiary and affiliated organizations on a collective basis.

9. **Use, Removal, and Return of Company's Property.** Employee shall not use, duplicate, disseminate or remove from Company's premises any information contained in any records, documents, data, or other tangible items of Company in original, duplicate or copied form, except as needed in the ordinary course of performing his/her employment duties for and subject to the approval by Company. Employee shall immediately deliver to Company, upon termination of Employee's employment with Company, or at any other time upon Company's request, any records, documents, data, and other tangible items in Employee's possession or control belonging to or relating to the products, services, systems or business of Company. Employee will not retain any copies or reproductions of records, documents, data or other tangible items of Company or any of its direct or indirect parent, subsidiary or affiliated organizations.

10. **Termination by Company for Cause.** Company may terminate Employee's employment for "Cause" at any time, without notice. For purposes of this Agreement, the term "Cause" shall mean any of the following:

- Employee engages in willful misconduct or fails to follow the reasonable and lawful instructions of the Board of Directors, if such conduct is not cured within thirty (30) calendar days after Company sends notice to the Employee of the alleged Cause,
- Employee embezzles or misappropriates assets of Company or any of its subsidiaries;
- Employee's violation of Employee's obligations in this Agreement, if such conduct is not cured within thirty (30) calendar days after Company sends written notice to the Employee of the alleged Cause;
- Breach of any agreement between Employee and Company or to which Company and Employee are parties, or a breach by Employee of a fiduciary duty or responsibility to Company;
- The commission by Employee of fraud or other willful conduct that adversely affects the business or reputation of Company, as determined in Company's sole discretion; or,
- Company has a reasonable belief Employee engaged in some form of harassment or other improper conduct prohibited by Company policy or the law.

In the event of a termination for Cause, Employee shall only be entitled to receive payment of base salary, in effect at the time of termination, through Employee's last date of employment and accrued, unused vacation pay. Employee will not be entitled to any other payments, salary, commission or bonus. Employee shall have absolutely no right to receive or retain any other payment or compensation whatsoever under this Agreement. The Employee's rights and obligations regarding stock options, restricted stock or other equity incentives owned by Employee shall be determined in accordance with and be governed by the 2012 Plan or the 2009 Equity Incentive Plan.

11. **Termination by Company without Cause.** Company may terminate Employee's employment without Cause at any time, for any reason, without notice. In the event Employee's employment is terminated by Company without Cause, Employee shall be entitled to receive from Company severance pay in an amount equal to (a) before the first anniversary of the date of this Agreement, three (3) months of Employee's base salary, then in effect at the time of termination, or (b) on or after the first anniversary of the date of this Agreement, twelve (12) months of Employee's base salary, then in effect at the time of termination, in either case less applicable taxes and withholdings. Employee shall receive bonus payment on a pro-rata basis through the date of Employee's termination and any accrued, unused vacation pay. The severance pay, bonus payment, and other consideration provided in this Section are conditioned upon Employee's execution of a full and final waiver of all claims against Company, and not rescinding or revoking (to the extent permitted under such release) Employee's release, in a form acceptable to Company.

12. **Termination by Employee for Good Reason.** For purposes of this Agreement, "Good Reason" shall mean (i) a material diminution in Employee's position, duties, base salary, and responsibilities; or (ii) Company's notice to Employee that his or her position will be relocated to an office which is greater than 100 miles from Employee's prior office location. In all cases of Good Reason, Employee must have given notice to Company that an alleged Good Reason event has occurred and the circumstance must remain uncorrected by Company after the expiration of thirty (30) days after receipt by Company of such notice. If Employee terminates his or her employment for Good Reason, Employee shall be entitled to receive from Company severance pay in an amount equal to (a) before the first anniversary of the date of this Agreement, three (3) months of Employee's base salary, then in effect at the time of termination, or (b) on or after the first anniversary of the date of this Agreement, twelve (12) months of Employee's base salary, then in effect at the time of termination, in either case less applicable taxes and withholdings. Employee shall receive bonus payment on a pro-rata basis through the date of Employee's termination and any accrued, unused vacation. The severance pay, bonus payment, and other consideration provided in this Section are conditioned upon Employee's execution of a full and final waiver of all claims against Company, and not rescinding or revoking (to the extent permitted under such release) Employee's release, in a form acceptable to Company.

13. **Termination by Employee without Good Reason.** If Employee terminates his or her employment with Company without Good Reason, Employee is only entitled to his or her base salary, then in effect at the time of termination, through Employee's last day of employment and accrued, unused vacation pay. Employee will not be entitled to any other payments, salary, or bonus.

14. **Termination Due to a Change in Control**. "Change in Control" means:

a. there is consummated a merger, consolidation, statutory exchange or reorganization, unless securities representing more than fifty percent (50%) of the total combined voting power of the outstanding voting securities of the successor corporation are immediately thereafter beneficially owned directly or indirectly and in substantially the same proportion, by the persons who beneficially owned Company's outstanding voting securities immediately prior to such transaction;

b. any transaction or series of related transactions pursuant to which any person or any group of persons comprising a "group" within the meaning of Rule 13d-5(b)(1) under the Securities Exchange Act of 1934, as amended (other than Company or a person that, prior to such transaction or series of related transactions, directly or indirectly controls, is controlled by or is under common control with, Company) becomes directly or indirectly the beneficial owner (within the meaning of Rule 13d-3 of the Securities Exchange Act of 1934, as amended) of securities possessing (or convertible into or exercisable for securities possessing) thirty percent (30%) or more of the total combined voting power of the securities (determined by the power to vote with respect to the elections of Board members) outstanding immediately after the consummation of such transaction or series of related transactions, whether such transaction involves a direct issuance from Company or the acquisition of outstanding securities held by one or more of Company's shareholders;

c. there is consummated a sale, lease, exclusive license, or other disposition of all or substantially all of the consolidated assets of the Company and its subsidiaries, other than a sale, lease, license, or other disposition of all or substantially all of the consolidated assets of the Company and its subsidiaries to an entity, more than fifty percent (50%) of the combined voting power of the voting securities of which are owned by shareholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale, lease, license, or other disposition

d. individuals who, on the date of this Agreement, are members of the Board of Directors of Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the members of the Board of Directors; provided, however, that if the appointment or election (or nomination for election) of any new director was approved or recommended by a majority vote of the members of the Incumbent Board then still in office, such new director shall, for purposes of sentence, be considered as a member of the Incumbent Board.

Notwithstanding the foregoing, (i) the definition of Change in Control (or any analogous term) in an individual written agreement between the Company and the Participant shall supersede the foregoing definition with respect to Incentives subject to such agreement (it being understood, however, that if no definition of Change in Control or any analogous term is set forth in such an individual written agreement, the foregoing definition shall apply); (ii) for clarification, a "Change in Control" shall not be deemed to have occurred for purposes of the foregoing clause (b) as the result of the acquisition of additional securities by Dr. Samuel Herschkowitz, Joshua Kornberg or their affiliates; and (iii) a "Change in Control" shall not be deemed to have occurred for purposes of the foregoing clause (b) solely as the result of a repurchase or other acquisition of securities by Company which, by reducing the number of shares of Voting Securities outstanding, increases the proportionate number of Voting Securities beneficially owned by any person to thirty percent (30%) or more of the combined voting power of all of the then outstanding Voting Securities; provided, however, that if any person referred to in this clause (iii) shall thereafter become the beneficial owner of any additional shares of Voting Securities (other than pursuant to a stock split, stock dividend, or similar transaction or as a result of an acquisition of securities directly from Company) and immediately thereafter beneficially owns thirty percent (30%) or more of the combined voting power of all of the then outstanding Voting Securities, then a "Change in Control" shall be deemed to have occurred for purposes of the foregoing clause (b).

In the event of a termination, without Cause, due to a Change of Control, Employee shall be entitled to receive from Company severance pay in an amount equal to twelve (12) months of Employee's base salary, then in effect at the time of termination, less applicable taxes and withholdings. Employee shall receive bonus payment on a pro-rata basis through the date of Employee's termination and any accrued, unused vacation. The severance pay, bonus payment, and other consideration provided in this Section are conditioned upon Employee's execution of a full and final waiver of all claims against Company, and not rescinding or revoking (to the extent permitted under such release) Employee's release, in a form acceptable to Company.

15. **Governing Law; Venue**. This Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota. The venue for any action relating to this Agreement shall be the federal or state courts located in Dakota County, Minnesota, to which venue each party hereby submits.

16. **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 mail 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: Josh Kornberg, CEO 2915 Commers Drive Suite 900 Eagan, Minnesota 55121
Employee:	Robert Myers 4765 Beacon Hill Road Eagan, Minnesota 55122

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.

17. **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, except the 2012 Plan, the 2009 Equity Incentive Plan and the applicable award agreements under such plans.

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. Any modification of this Agreement must be in writing and signed by both parties.

19. **Scope of Remedies.** In the event Employee breaches the covenants contained in this Agreement, Employee recognizes that irreparable injury will result to Company, that Company's traditional remedies at law for damages will be inadequate, and that Company shall be entitled to injunctive relief ordered by a judicial court of competent jurisdiction to restrain the continuing breach by Employee, Employee's partners, agents, or employees, or any other persons or entities acting for or with Employee. Company shall further be entitled to seek remedies in a judicial court of competent jurisdiction for damages, reasonable attorney's fees, and all other costs and expenses incurred in connection with the enforcement of this Agreement, in addition to any other rights and remedies which Company may have at law or in equity.

20. **Binding Effect, Assigns, Successors, Etc.** The benefits and obligations of this Agreement shall inure to the successors and assigns of Company, to any person or entity which purchases substantially all of the assets of Company, and to any subsidiary, affiliated corporation, or operating division of Company. This Agreement is not assignable by Employee.

21. **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.

22. **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.

23. **Survival.** The restrictions on Employee's post-employment activities (including Employee's confidentiality obligations and restrictive covenants), and those sections of this Agreement that pertain to interpretation and enforcement of such restrictions, will survive the termination of this Agreement and/or Employee's employment and will remain in full force and effect.

24. **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, Inc.

By: /s/ Josh Kornberg
JOSH KORNBERG, CEO

By: /s/ Robert Myers
ROBERT MYERS

Exhibit 10.38

EMPLOYMENT AGREEMENT

This Agreement made and entered into effective the 11th day of August, 2012 by and between David Johnson, an individual residing at 9912 Brookside Avenue, Bloomington, MN 55431 ("Employee"), and BioDrain Medical, Inc., 2915 Commers Drive, Suite 900, Eagan, Minnesota 55121, a Minnesota corporation ("Company"), collectively referred to as "the Parties".

WITNESSETH:

WHEREAS, Company desires to employ Employee to render services for Company as its Chief Operating Officer on the terms and conditions hereinafter set forth, and Employee desires to be employed by 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. **Employee's Acknowledgment and Certifications**. Employee hereby represents and certifies that Employee is not subject to any other agreement or restrictive covenant that Employee violates by working with Company. Further, Employee represents that no conflict of interest or breach of Employee's fiduciary duties will result by working with and performing duties for Company. Employee further agrees and certifies that Employee will not use or disclose to Company any confidential, proprietary or trade secret information belonging to another individual or entity which may not properly be used or disclosed by Employee to Company.

2. **Employment and Term**. Company hereby employs Employee and Employee hereby accepts employment with Company upon the terms and conditions of this Agreement. Employee's employment with Company is at-will and will commence on 1 July 2012. This Agreement does not modify the at-will nature of Employee's employment nor is it intended to guarantee Employee a specific term of employment with Company. Either Employee or Company may terminate the employment relationship at any time, for any lawful reason. Employee agrees to abide by all Company rules, policies, and procedures.

3. **Duties**. Employee shall have the title of Chief Operating Officer. Employee will devote Employee's full working time, attention, loyalty, skills and efforts to diligently perform all the duties, responsibilities, and requirements assigned to Employee while employed by Company. Employee's title, position and duties are at all times subject to change at Company's sole discretion.

4. **Compensation**.

   a. **Base Salary.** Employee will receive an initial annualized base salary of $150,000 (gross, less applicable legally required withholdings and such other deductions as Employee voluntarily authorizes in writing). Employee's base salary and other compensation will be subject to review and adjustment by Company at any time, as Company deems appropriate; provided, that Employee's base salary will not be reduced without Employee's consent unless a salary reduction is imposed upon substantially all employees of the Company as part of a general reduction.

b. **Commission. Not Applicable.**

c. **Bonus.** In each calendar year during the term of this Agreement, beginning in calendar year 2012, Employee shall be eligible to receive an annual incentive bonus determined annually at the discretion of the Board, subject to the attainment of certain objectives, which shall be established in writing by the Employee and the Board prior to each bonus period (in the case of 2012, established prior to the date of this Agreement). The maximum bonus that may be earned by Employee for any year will be not less than 150% of Employee's then-current base salary. The minimum bonus that may be earned by Employee for any year will be not less than 20% of Employee's then-current base salary. Any payments made under this Section 5(c) shall be paid within 3 1/2 months of the end of the bonus period, provided that Employee was employed by the Company on the last day of the bonus period.

d. **Stock Options.** The Employee will receive ten year term non-qualified stock options to purchase 1,000,000 shares of Company's common stock at $.08 (market value at time of contract) per share pursuant to the 2012 Stock Incentive Plan (the "2012 Plan"). The shares will vest as follows: 700,000 immediately on grant date, August 13, 2012, and the remaining 300,000 shares 18 months from the grant date, February 13, 2014.

e. **Directors & Officers Insurance.** While employed by Company, Employee shall be considered an officer of Company and shall be covered by D&O Insurance, or any other similar type of insurance, that provides coverage for Employee's acts or omissions undertaken during the course and scope of Employee's employment and maintain coverage for Employee for at least three (3) years following Employee's employment.

5. Additional Benefits.

a. **Automobile.** Company shall reimburse Employee for deductible automobile mileage according to its Expense Reporting Procedures.

b. **Business Expenses.** Company will reimburse Employee for all preapproved, reasonable, deductible and substantiated business expenses per its Expense Reporting Procedures. This includes, but is not limited to such expenses as cell phones and business meetings.

c. **Vacation.** Employee will receive two (2) weeks of vacation for 2012. Employee shall thereafter be entitled to four (4) weeks of paid vacation per each calendar year earned ratably over each calendar year, to be taken at such times as Employee and Company shall determine and provided that no vacation time shall unreasonably interfere with the duties required to be rendered by Employee hereunder. Any vacation time not taken by Employee during any calendar year may be carried forward into one succeeding calendar year. Accrued but unused vacation will be paid out to Employee at the time of termination of employment.

d. **Benefits.** Employee will be eligible for the additional benefits as described in Exhibit **[B]**.

6. **Non-Competition**. Employee agrees that while employed by Company and for a period of twelve (12) months after the date Employee's employment with Company terminates, regardless of the reason for termination, Employee will not, without the prior written consent of Company, directly or indirectly, as an employee, owner, consultant or in any other capacity whatsoever, for Employee's own behalf or on behalf of any other person or entity, anywhere in the United States of America:

a. *Prohibition on Competition*. Engage in or render services, directly or indirectly, to any person or organization engaged in or about to become engaged in the development, production, marketing or selling of any product, process or service in existence or under development which is similar to or competes with a product, process or service of Company; or

b. *Company Clients*. Work or perform services as an employee, agent, independent contractor or otherwise, for any client, customer, supplier or business partner of Company with whom Employee worked, solicited, marketed or obtained confidential information about during Employee's employment with Company; or

c. *Non-Solicitation*. (i) Solicit, contact, sell to, provide services to, or attempt to divert, take away or induce clients or prospective clients of Company with whom Employee worked, solicited, marketed, or obtained confidential information about during Employee's employment with Company, regarding services or products that are competitive with any of Company's services or products; or (ii) solicit, divert, take away or induce any employee or independent contractor of Company to leave the employ or service of Company.

Company is providing Employee with adequate and valuable consideration to compensate Employee for the reasonable restrictions on Employee's post-employment competitive activities contained within this Agreement. Employee hereby acknowledges the consideration, Employee's stock option grant and access to certain of Company's proprietary information and goodwill, constitute adequate and sufficient consideration for the restrictive covenants in this Agreement. Employee agrees that the restrictions set forth in this Agreement are reasonable considering Employee's position.

If any of the above restrictions are deemed by a court of competent jurisdiction to be unreasonable in duration or in geographical scope, it will be considered modified and valid for such duration and geographical scope as the court determines to be reasonable under the circumstances. The duration of the above restrictions will be extended beyond the twelve (12) month period for a period equal to the duration of any breach or default of such covenant by Employee. Upon terminating employment with Company (for whatever reason), Employee has an affirmative obligation to inform any prospective employer and/or actual employer, of Employee's post-employment obligations contained within this Agreement including Employee's non-competition and non-solicitation obligations.

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 there from. 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 sublicense) 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 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. **Nondisclosure of Confidential Information.** Employee shall keep confidential and not disclose to anyone or use, either during or after Employee's employment with Company, any Confidential Information of Company, except as required by Employee's employment with Company or as expressly authorized in writing by Company. For the purposes of this Agreement, "Confidential Information" is any and all sensitive, confidential, proprietary and trade secret information concerning or relating to Company and its direct and indirect parents, subsidiaries and/or affiliated organizations, including any information or compilation of information which derives independent economic value from not being generally known to and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use. Examples of Confidential Information not to be disclosed or used except as expressly permitted by Company include, but are not limited to, the following:

a. All patterns, compilations, programs, know how; designs, processes or formulae; software; market or sales information or plans, devices, methods, concepts, techniques, processes, source codes, data capture innovations, algorithms, user interface designs and database designs relating to Company's products, services, systems or business;

b. Information acquired or compiled by Company concerning actual or potential clients/customers, suppliers and business partners, including their identities, financial information concerning their actual or prospective business operations, identity and quantity of services and/or products provided by Company, and any unpublished written materials furnished by or about them to Company; and

c. Information concerning Company's ownership, management, financial condition, financial operations, business activities or practices, sales activities, marketing activities or plans, research and development, pricing practices, legal matters, and strategic business plans.

Employee acknowledges that Company shall at all times be and remain the owner of all Confidential Information disclosed to/acquired by Employee during Employee's employment with Company, and Employee acknowledges that Employee may use the Confidential Information only for the limited purposes for which it was disclosed under this Agreement. Employee shall use his/her best efforts to preserve the confidentiality of such Confidential Information which he/she knows or reasonably should know Company deems to be Confidential Information. Employee agrees that he/she will not knowingly use, disclose or permit the use or disclosure of Company's Confidential Information in any manner which may injure Company's business, impair its investments and goodwill, and/or adversely impact Company's relationships with its actual or potential customers and suppliers. The obligations of this Section shall continue in full force and effect after the termination of this Agreement and the termination of Employee's employment with Company. As used in this Section 8, the term "Company" shall include Company and each of its direct and indirect parent, subsidiary and affiliated organizations on a collective basis.

9. **Use, Removal, and Return of Company's Property.** Employee shall not use, duplicate, disseminate or remove from Company's premises any information contained in any records, documents, data, or other tangible items of Company in original, duplicate or copied form, except as needed in the ordinary course of performing his/her employment duties for and subject to the approval by Company. Employee shall immediately deliver to Company, upon termination of Employee's employment with Company, or at any other time upon Company's request, any records, documents, data, and other tangible items in Employee's possession or control belonging to or relating to the products, services, systems or business of Company. Employee will not retain any copies or reproductions of records, documents, data or other tangible items of Company or any of its direct or indirect parent, subsidiary or affiliated organizations.

10. **Termination by Company for Cause.** Company may terminate Employee's employment for "Cause" at any time, without notice. For purposes of this Agreement, the term "Cause" shall mean any of the following:

- Employee engages in willful misconduct or fails to follow the reasonable and lawful instructions of the Board of Directors, if such conduct is not cured within thirty (30) calendar days after Company sends notice to the Employee of the alleged Cause,

- Employee embezzles or misappropriates assets of Company or any of its subsidiaries;

- Employee's violation of Employee's obligations in this Agreement, if such conduct is not cured within thirty (30) calendar days after Company sends written notice to the Employee of the alleged Cause;

- Breach of any agreement between Employee and Company or to which Company and Employee are parties, or a breach by Employee of a fiduciary duty or responsibility to Company;

- The commission by Employee of fraud or other willful conduct that adversely affects the business or reputation of Company, as determined in Company's sole discretion; or,

- Company has a reasonable belief Employee engaged in some form of harassment or other improper conduct prohibited by Company policy or the law.

In the event of a termination for Cause, Employee shall only be entitled to receive payment of base salary, in effect at the time of termination, through Employee's last date of employment and accrued, unused vacation pay. Employee will not be entitled to any other payments, salary, commission or bonus. Employee shall have absolutely no right to receive or retain any other payment or compensation whatsoever under this Agreement. The Employee's rights and obligations regarding stock options, restricted stock or other equity incentives owned by Employee shall be determined in accordance with and be governed by the 2012 Plan or the 2009 Equity Incentive Plan.

11. **Termination by Company without Cause.** Company may terminate Employee's employment without Cause at any time, for any reason, without notice. In the event Employee's employment is terminated by Company without Cause, Employee shall be entitled to receive from Company severance pay in an amount equal to (a) before the first anniversary of the date of this Agreement, three (3) months of Employee's base salary, then in effect at the time of termination, or (b) on or after the first anniversary of the date of this Agreement, twelve (12) months of Employee's base salary, then in effect at the time of termination, in either case less applicable taxes and withholdings. Employee shall receive bonus payment on a pro-rata basis through the date of Employee's termination and any accrued, unused vacation pay. The severance pay, bonus payment, and other consideration provided in this Section are conditioned upon Employee's execution of a full and final waiver of all claims against Company, and not rescinding or revoking (to the extent permitted under such release) Employee's release, in a form acceptable to Company.

12. **Termination by Employee for Good Reason.** For purposes of this Agreement, "Good Reason" shall mean (i) a material diminution in Employee's position, duties, base salary, and responsibilities; or (ii) Company's notice to Employee that his or her position will be relocated to an office which is greater than 100 miles from Employee's prior office location. In all cases of Good Reason, Employee must have given notice to Company that an alleged Good Reason event has occurred and the circumstance must remain uncorrected by Company after the expiration of thirty (30) days after receipt by Company of such notice. If Employee terminates his or her employment for Good Reason, Employee shall be entitled to receive from Company severance pay in an amount equal to (a) before the first anniversary of the date of this Agreement, three (3) months of Employee's base salary, then in effect at the time of termination, or (b) on or after the first anniversary of the date of this Agreement, twelve (12) months of Employee's base salary, then in effect at the time of termination, in either case less applicable taxes and withholdings. Employee shall receive bonus payment on a pro-rata basis through the date of Employee's termination and any accrued, unused vacation. The severance pay, bonus payment, and other consideration provided in this Section are conditioned upon Employee's execution of a full and final waiver of all claims against Company, and not rescinding or revoking (to the extent permitted under such release) Employee's release, in a form acceptable to Company.

13. **Termination by Employee without Good Reason.** If Employee terminates his or her employment with Company without Good Reason, Employee is only entitled to his or her base salary, then in effect at the time of termination, through Employee's last day of employment and accrued, unused vacation pay. Employee will not be entitled to any other payments, salary, or bonus.

14. **Termination Due to a Change in Control**. "Change in Control" means:

a. there is consummated a merger, consolidation, statutory exchange or reorganization, unless securities representing more than fifty percent (50%) of the total combined voting power of the outstanding voting securities of the successor corporation are immediately thereafter beneficially owned directly or indirectly and in substantially the same proportion, by the persons who beneficially owned Company's outstanding voting securities immediately prior to such transaction;

b. any transaction or series of related transactions pursuant to which any person or any group of persons comprising a "group" within the meaning of Rule 13d-5(b)(1) under the Securities Exchange Act of 1934, as amended (other than Company or a person that, prior to such transaction or series of related transactions, directly or indirectly controls, is controlled by or is under common control with, Company) becomes directly or indirectly the beneficial owner (within the meaning of Rule 13d-3 of the Securities Exchange Act of 1934, as amended) of securities possessing (or convertible into or exercisable for securities possessing) thirty percent (30%) or more of the total combined voting power of the securities (determined by the power to vote with respect to the elections of Board members) outstanding immediately after the consummation of such transaction or series of related transactions, whether such transaction involves a direct issuance from Company or the acquisition of outstanding securities held by one or more of Company's shareholders;

c. there is consummated a sale, lease, exclusive license, or other disposition of all or substantially all of the consolidated assets of the Company and its subsidiaries, other than a sale, lease, license, or other disposition of all or substantially all of the consolidated assets of the Company and its subsidiaries to an entity, more than fifty percent (50%) of the combined voting power of the voting securities of which are owned by shareholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale, lease, license, or other disposition

d. individuals who, on the date of this Agreement, are members of the Board of Directors of Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the members of the Board of Directors; provided, however, that if the appointment or election (or nomination for election) of any new director was approved or recommended by a majority vote of the members of the Incumbent Board then still in office, such new director shall, for purposes of sentence, be considered as a member of the Incumbent Board.

Notwithstanding the foregoing, (i) the definition of Change in Control (or any analogous term) in an individual written agreement between the Company and the Participant shall supersede the foregoing definition with respect to Incentives subject to such agreement (it being understood, however, that if no definition of Change in Control or any analogous term is set forth in such an individual written agreement, the foregoing definition shall apply); (ii) for clarification, a "Change in Control" shall not be deemed to have occurred for purposes of the foregoing clause (b) as the result of the acquisition of additional securities by Dr. Samuel Herschkowitz, Joshua Kornberg or their affiliates; and (iii) a "Change in Control" shall not be deemed to have occurred for purposes of the foregoing clause (b) solely as the result of a repurchase or other acquisition of securities by Company which, by reducing the number of shares of Voting Securities outstanding, increases the proportionate number of Voting Securities beneficially owned by any person to thirty percent (30%) or more of the combined voting power of all of the then outstanding Voting Securities; provided, however, that if any person referred to in this clause (iii) shall thereafter become the beneficial owner of any additional shares of Voting Securities (other than pursuant to a stock split, stock dividend, or similar transaction or as a result of an acquisition of securities directly from Company) and immediately thereafter beneficially owns thirty percent (30%) or more of the combined voting power of all of the then outstanding Voting Securities, then a "Change in Control" shall be deemed to have occurred for purposes of the foregoing clause (b).

In the event of a termination, without Cause, due to a Change of Control, Employee shall be entitled to receive from Company severance pay in an amount equal to twelve (12) months of Employee's base salary, then in effect at the time of termination, less applicable taxes and withholdings. Employee shall receive bonus payment on a pro-rata basis through the date of Employee's termination and any accrued, unused vacation. The severance pay, bonus payment, and other consideration provided in this Section are conditioned upon Employee's execution of a full and final waiver of all claims against Company, and not rescinding or revoking (to the extent permitted under such release) Employee's release, in a form acceptable to Company.

15. **Governing Law; Venue**. This Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota. The venue for any action relating to this Agreement shall be the federal or state courts located in Dakota County, Minnesota, to which venue each party hereby submits.

16. **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 mail 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: Josh Kornberg, CEO 2915 Commers Drive Suite 900 Eagan, Minnesota 55121
Employee:	David O. Johnson 9912 Brookside Avenue Bloomington, MN 55431

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.

17. **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, except the 2012 Plan, the 2009 Equity Incentive Plan and the applicable award agreements under such plans.

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. Any modification of this Agreement must be in writing and signed by both parties.

19. **Scope of Remedies.** In the event Employee breaches the covenants contained in this Agreement, Employee recognizes that irreparable injury will result to Company, that Company's traditional remedies at law for damages will be inadequate, and that Company shall be entitled to injunctive relief ordered by a judicial court of competent jurisdiction to restrain the continuing breach by Employee, Employee's partners, agents, or employees, or any other persons or entities acting for or with Employee. Company shall further be entitled to seek remedies in a judicial court of competent jurisdiction for damages, reasonable attorney's fees, and all other costs and expenses incurred in connection with the enforcement of this Agreement, in addition to any other rights and remedies which Company may have at law or in equity.

20. **Binding Effect, Assigns, Successors, Etc.** The benefits and obligations of this Agreement shall inure to the successors and assigns of Company, to any person or entity which purchases substantially all of the assets of Company, and to any subsidiary, affiliated corporation, or operating division of Company. This Agreement is not assignable by Employee.

21. **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.

22. **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.

23. **Survival.** The restrictions on Employee's post-employment activities (including Employee's confidentiality obligations and restrictive covenants), and those sections of this Agreement that pertain to interpretation and enforcement of such restrictions, will survive the termination of this Agreement and/or Employee's employment and will remain in full force and effect.

24. **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, Inc.

By: /s/ Josh Kornberg
JOSH KORNBERG, CEO

By: /s/ David Johnson
DAVID JOHNSON

Exhibit 10.39

BioDrain Medical, Inc.
2915 Commers Drive, Suite 900
Eagan, Minnesota 55121

August 21, 2012

Sent via email to: caruwe@comcast.net

Mr. Chad A. Ruwe
5220 Oaklawn Avenue
Edina, MN 55424

Dear Mr. Ruwe (“Ruwe”):

I am writing to set forth the terms of your separation with BioDrain Medical, Inc. (the “**Company**”) as an employee and the conditions pursuant to which you will release the Company from any and all claims that you have or may have against the Company or any of its affiliates (collectively, the “**Separation and Release**”). In exchange for such Separation and Release, you shall be entitled to:

(i) common stock of the Company (par value $.01) (the “**Common Stock**”) equivalent in value to $175,000.00, in settlement of the total amount of past due wages, paid time off, severance and other payments owed to Ruwe by the Company, including but not limited to any amounts owed to Ruwe by the Company under the terms of that certain Employment Agreement between Ruwe and the Company dated as of June 16, 2008 (the “**Employment Agreement**”),

(ii) amendment of the warrant issued to Ruwe by the Company dated July 2, 2008 (as amended subsequently to extend the expiration date of the warrant to July 2, 2012, the “**2008 Warrant**”) for the purchase of 571,429 shares of Common Stock tied to Ruwe’s initial $200,000.00 investment in the Company: (A) extending the expiration date by two years, to July 2, 2014 and (B) allowing complete exercise of the 2008 Warrant regardless of Ruwe’s equity ownership in the Company,

(iii) additional warrants to purchase 200,000 shares of Common Stock as additional consideration for settlement of the claims hereunder, and

(iv) exchange 700,000 options expiring December 7, 2012 for a warrant for the purchase of 700,000 shares of Common Stock at $0.15 per share with an expiration of June 29, 2017.

You understand and acknowledge that you are no longer an employee of the Company. Further, you understand and acknowledge that those certain warrant(s) to purchase 50,000 shares of Common Stock issued to you by the Company in 2009 reflecting your $25,000 April 14, 2009 investment in the Company have expired as of the Effective Date (defined below) and you hereby release the Company, pursuant to Section 2 below, from any obligation under such warrant(s) and any related agreements.

In consideration for the issuance of Common Stock and other promises and covenants made in this letter agreement, including without limitation in the paragraphs set forth immediately above (the "**Agreement**"), the sufficiency of which consideration is acknowledged by both parties hereto, you and the Company agree as follows:

1. Issuance of Shares. In partial consideration for your execution and delivery of this Agreement on or prior to August 21, 2012 (the "**Effective Date**"), the Company agrees to, on or promptly after the Effective Date issue to Ruwe 1,166,667 shares of Common Stock, representing the agreed-upon payment of $175,000.00 at a valuation of $0.15/share. Such shares shall be issued in your name, in one or more certificates, which will be mailed to: Chad A. Ruwe, 5220 Oaklawn Avenue, Edina, MN 55424 on, or within thirty (30) days after, the Effective Date.

2. Amendments to 2008 Warrant. The 2008 Warrant is hereby amended as follows:

(i) Section 12(g) is hereby amended and restated as follows:

"'**Expiration Date**' means July 2, 2014"'

(ii) Section 1(f) is hereby deleted in its entirety.

3. Additional Warrants. The Company agrees to, on or promptly after the Effective Date, grants to Ruwe an additional warrant to purchase an additional 200,000 shares of Common Stock as additional consideration hereunder. The warrant will be in the form of the 2008 Warrant, as amended hereunder, except that (i) the Exercise Price, as set forth in Section 1(c) of the warrant, will be $0.15/share, subject to subsequent adjustment under the terms of the warrant, and (ii) the Expiration Date as set forth in Section 12(g) shall be June 29, 2017. This additional warrant shall be issued in Ruwe's name, which will be mailed to: Chad A. Ruwe, 5220 Oaklawn Avenue, Edina, MN 55424 on, or within thirty (30) days after, the Effective Date.

The Company agrees to, on or promptly after the Effective Date, grant to Ruwe an additional warrant to purchase an additional 700,000 shares of Common Stock as a direct replacement of the 700,000 options expiring on December 7, 2012. The warrant will be in the form of the 2008 Warrant, as amended hereunder, except that (i) the Exercise Price, as set forth in Section 1(c) of the warrant, will be $0.15/share, subject to subsequent adjustment under the terms of the warrant, and (ii) the Expiration Date as set forth in Section 12(g) shall be June 29, 2017. Similarly, Company allows complete exercise of the warrant for 700,000 shares regardless of Ruwe's equity ownership in the Company. This additional warrant shall be issued in Ruwe's name, which will be mailed to: Chad A. Ruwe, 5220 Oaklawn Avenue, Edina, MN 55424 on, or within thirty (30) days after, the Effective Date

4. Waiver and Release. As of the Effective Date, you and each of your affiliates, successors, assigns, beneficiaries, insurers, indemnitors, trustees, agents and representatives, hereby releases and forever discharges the Company, and each of its respective officers, directors, shareholders, affiliates, predecessors, successors, assigns, insurers, indemnitors, attorneys, employees, agents and representatives (collectively, the "**Released Parties**") of and from any and all past, present and future claims, demands, liabilities, judgments, and causes of action, at law or in equity, known or unknown, asserted or unasserted, liquidated or unliquidated, absolute or contingent, accrued or not accrued, which you ever had, presently have, might have in the future, claim to have, or claim to have had against any of the Released Parties whatsoever at any time from the beginning of time to and including the Effective Date; *provided, however*, that the foregoing shall not release or waive a breach of this Agreement.

5. Mutual Non-Disparagement. You agree not to disparage the Company, or its products, services, or employees. You will not make any statements about Separation and Release discussions or terms with the Company that portrays or characterize this resolution in any manner other than that this Agreement is concluded to your satisfaction, and you will not make any statements that contradict that this is a no-fault Separation and Release. In return, the Company's management team will not disparage you.

6. Survival of Certain Terms. You understand and acknowledge that certain provisions of the Employment Agreement extend beyond the termination of the Employment Agreement and shall continue in full force and effect after the execution of this Agreement including, without limitation, the Non-Compete and Intellectual Property provisions set forth in Sections 6 and 7, respectively, of the Employment Agreement.

7. Entire Agreement. This Agreement contains the entire understanding of the parties with respect to the subject matter hereof and supersedes all prior agreements, either oral or written, including without limitation that certain proposal submitted by you to the Company on or about April 24, 2012 and any and all attendant correspondence. This Agreement may not be amended except by a writing signed by each of the parties hereto.

8. Confidentiality. Neither party hereto will disclose to any other individual or entity any information whatsoever about this Agreement including without limitation information relating to or arising from the negotiation, preparation and execution of this Agreement, except to the extent that disclosure may be required by law or in order to directly perform under this Agreement.

9. Restricted Shares. By signing below, you represent and warrant that you are acquiring the shares and additional warrants described in Sections 1 and 3, and any shares received upon exercise of such additional warrants (together, the "**Securities**") for your own account for long-term investment and not as a nominee or agent and not with the view to, or for resale in connection with, any distribution in violation of federal or state securities laws and that you have made no agreement with any other person or entity regarding any of the Securities. You further represent and agree that the Securities are restricted securities and if you later desire to transfer the Securities, you shall not do so without first obtaining (i) an opinion of counsel satisfactory to the Company that such proposed disposition or transfer may be made lawfully without the registration of such Securities pursuant to the Securities Act of 1933 (as amended, the "**Securities Act**") and applicable state laws or (ii) registration of such Shares (it being expressly understood that the Company shall not have any obligations to register the Securities) (collectively, the "**Securities Restrictions**"). The stock certificates and warrant representing the Securities will each bear a restrictive legend setting forth the Securities Restrictions.

10. Governing Law; Venue. This Agreement shall be governed by the laws of the State of Minnesota, without regard to its conflicts-of-law provisions. The venue for any action hereunder shall be in the State of Minnesota, whether or not such venue is or subsequently becomes inconvenient, and the parties consent to the jurisdiction of the state and federal courts of the State of Minnesota.

11. Counterparts. This Agreement may be executed by the parties in counterparts, all of which, when taken together, shall constitute a fully executed version of this Agreement. This Agreement, or a counterpart, thereof, may be executed and delivered by telecopier, facsimile or any other electronic transmission, including, without limitation, a scanned version in .pdf format, and the telecopier, facsimile or any other electronic transmission of a signature to another party or parties (or to their respective legal representatives) shall be of the same force and effect as the delivery of an original signature.

Signature Page Follows

Agreed to and accepted this	Very truly yours,
21st day of August, 2012	BioDrain Medical, Inc.
/s/ Chad A. Ruwe	/s/ Bob Myers
Chad A. Ruwe, *individually*	By: Bob Myers Its: Chief Financial Officer

EXHIBIT 10.40

SETTLEMENT AGREEMENT AND MUTUAL GENERAL RELEASE

This Settlement Agreement and Release ("Agreement"), effective as of _________________________, 2012, is entered into by and between BioDrain Medical, Inc., a Minnesota Corporation ("BioDrain"), and all persons and entities claiming by or through BioDrain, on the one hand, and Kevin Davidson ("Davidson"), and all persons and entities claiming by or through Davidson, on the other hand. BioDrain and Davidson collectively are referred herein as "Settling Parties" or, singularly, as "Settling Party," as appropriate from the context.

Recitals

WHEREAS:

A. In or about April 2012, a dispute arose between the Settling Parties regarding what, if any, amount was owed by one Settling Party to the other arising from Davidson's employment with BioDrain (the "Dispute");

B. As part of the Dispute, Davidson alleges that he is entitled to reimbursement for back-wages and unused vacation time, and severance pay;

C. As part of the Dispute, BioDrain alleges that it is entitled to reimbursement of over-payment of wages to Davidson and the return of BioDrain property;

D. Settling Parties now wish to settle the Dispute and any other pending disputes, known or unknown, between them, without any admission or acknowledgment of liability by any Settling Party.

NOW, THEREFORE, the Settling Parties hereby agree as follows:

Terms, Covenants and Releases

1 . **Consideration**. In partial consideration for Davidson's general release herein and Davidson's agreements in Section 8 hereof relating to confidentiality, noncompetition and nonsolicitation, BioDrain shall, not later than seven (7) calendar days after the revocation periods have expired pursuant to Section 5 hereof:

1.1. Issue and deliver to Davidson four (4) warrants (collectively, the "Warrant"), each substantially in the form attached hereto as Exhibit A to purchase 200,000 shares of BioDrain's Common Stock (for a total of 800,000 shares of BioDrain's Common Stock, in the aggregate), $0.01 par value per share (the "Common Stock"), at an initial exercise price of $0.10 per share of Common Stock. BioDrain shall deliver the Warrant to Davidson at the office of BioDrain on a date and at a time reasonably and mutually agreed upon by the Settling Parties (but not more than seven (7) calendar days after the revocation periods expired pursuant to Section 5 hereof) or at such other time and place as the Settling Parties may agree; and

1.2. Transfer and convey all right, title and interest in and to the laptop computer currently owned by BioDrain, which was used by Davidson throughout his employment at BioDrain.

If, for any reason whatsoever, the Settling Parties have not met for the purpose of delivering the Warrant to Davidson within seven (7) calendar days after the revocation periods pursuant to Section 5 hereof have expired, BioDrain shall promptly, upon written request from Davidson or his counsel, mail the Warrant to Davidson at an address specified by Davidson, certified U.S. mail, return receipt requested.

2 . **Investment Representation.** Davisdon acknowledges that the Warrant is not being registered under the Securities Act of 1933, as amended (the "Act"), based, in part, on reliance that the issuance of the Warrant is exempt from registering under Section 4(2) of the Act as not involving any public offering. Davidson further acknowledges that BioDrain's reliance on such exemption is predicated, in part, on the following representations made by Davidson to BioDrain:

2.1. Davidson is aquiring the Warrant solely for his own account, for investment purposes only, and not with an intent to sell, or for resale in connection with any distribution of all or any portion of the Warrant within the meaning of the Act;

2.2. Davidson (i) is experienced in evaluating and investing in companies such as BioDrain, (ii) has a preexisting business relationship with BioDrain, (iii) has reviewed (A) a copy of BioDrain's Annual Report on Form 10-K for the year ended December 31, 2011 and (B) all other reports filed by BioDrain with the Securities and Exchange Commission under the Securities Exchange Act of 1934 and amended, since December 31, 2011 (the "Disclosure Package") and (iv) has had an opportunity to ask questions of and receive answers from BioDrain concerning the terms of the purchase of the Warrant hereunder and has been given access to all books, records and other information of BioDrain which Davidson has desired to review and analyze in connection with Davidson's acquisition of the Warrant hereunder necessary to verify the accuracy of the information contained in the Disclosure Package;

2.3. Davidson (i) has no need for immediate liquidity in this investment, (ii) has the ability to bear the economic risk of this investment and (iii) can afford a complete loss of his investment;

2.4. Davidson (i) understands that the Warrant, and the shares of the Common Stock for which the Warrant is exercisable, are characterized as "restricted securities" under the federal securities laws since such securities are being acquired from BioDrain in a transaction not involving a public offering and that, under such laws and applicable regulations, such securities may be resold without registration under the Act only in certain limited circumstances and (ii) represents that he is familiar with Rule 144 promulgated under the Act, as presently in effect, and understands the resale limitations imposed thereby and by the Act; and

2.5. At no time was any oral representation made to Davidson relating to the purchase of the Warrant by BioDrain or its representatives, or was Davidson presented with or solicited by any leaflet, public or promotional material, newspaper or magazine article, radio or television advertisement or any other form of general advertisement relating to the purchase of the Warrant.

3. **Limitations on Disposition.**

3.1. Transfers. Davidson agrees not to transfer the shares of Common Stock issuable upon Davidson's exercise of the Warrant (the "Warrant Shares"), except in accordance with the express terms of this Section 3 and unless the proposed transferee (a) is not a direct or indirect competitor of BioDrain and (b) agrees with BioDrain in writing to be bound by the terms and conditions of Section 3 of this Agreement. Any attempted transfer in violation of this Section 3 shall be void and of no effect.

3.2. Compliance with Securities Law. Without in any way limiting the representations set forth above, Davidson further agrees not to make any disposition of all or any portion of the Warrant Shares, except in compliance with applicable state securities laws and unless and until:

3.2.1. there is then in effect a registration statement under the Act covering such proposed disposition and such disposition is made in accordance with such registration statement;

3.2.2. such disposition is made in accordance with Rule 144 promulgated under the Act; or

3.2.3. Davidson shall have (i) notified BioDrain of the proposed disposition, (ii) furnished BioDrain with a statement of the circumstances surrounding the proposed disposition and (iii) if requested by BioDrain, Davidson shall have furnished BioDrain with an opinion of counsel, acceptable to BioDrain, to the effect that such disposition will not require registration under the Act and will be in compliance with applicable state securities laws.

3.3. Stock Certificate Legend. Davdison understands and acknowledges that each certificate evidencing the Warrant Shares (or evidencing any other securities issued with respect thereto pursuant to any stock split, stock dividend, merger or other form of reorganization or recapitalization) shall bear, in addition to any other legends which may be required by applicable state securities law, the following legend:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED ("ACT"), NOR HAVE THEY BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. NO TRANSFER OF SUCH SECURITIES WILL BE PERMITTED UNLESS A REGISTRATION STATEMENT UNDER THE AC IS IN EFFECT AS TO SUCH SECURITIES, THE TRANSFER IS MADE IN ACCORDANCE WITH RULE 144 PROMULGATED UNDER THE ACT, OR, IN THE OPINION OF COUNSEL, REGISTRATION UNDER THE ACT IS UNNECESSARY IN ORDER FOR SUCH TRANSFER TO COMPLY WITH THE ACT AND WITH APPLICABLE STATE SECURITIES LAWS.

4. **Mutual General Releases.** Effective after the revocation periods have expired pursuant to Section 5 hereof:

4.1. Subject to Subsection 4.3 of this Section, BioDrain, Atlantic Partners Alliance LLC, SOK Partners LLC, Joshua Kornberg, and Dr. Samuel Herschkowitz, for and on behalf of themselves and their respective past, present, future and former directors, officers, shareholders, members, owners, affiliates, assigns, associates, partners, licensees, employees, insurers, attorneys, and all persons or entities claiming or acting by, through, or in concert with them or any of them (the "BioDrain Releasors"), shall, and do, hereby, collectively and individually, release and forever discharge Davidson, and each of Davidson's past, present, and future partners, associates, spouses, insurers, and attorneys, and all persons or entities claiming or acting by, through, or in concert with them, of and from any and all actions, causes of action, claims for relief, suits, obligations, debts, liens, contracts, promises, liabilities, injuries to person or property, claims, predicate acts, demands, damages, losses, costs, attorneys fees, or expenses, fixed or contingent, direct or indirect, in law or in equity, whether or not they arise out of or are related to the Dispute ("Claims"). The BioDrain Releasors acknowledge and agree that this release is a general and unconditional release and that the BioDrain Releasors do not reserve any rights whatsoever against Davidson or the other released parties enumerated above, except to the extent those rights are created expressly by this Agreement.

4.2. Subject to Subsection 4.3 of this Section, Davidson, for and on behalf of Davidson and Davidson's past, present, and future partners, associates, spouses, insurers, or attorneys, and all persons or entities claiming or acting by, through, or in concert with them, shall, and do, hereby, collectively and individually, release and forever discharge BioDrain, Atlantic Partners Alliance LLC, SOK Partners LLC, Joshua Kornberg, and Dr. Samuel Herschkowitz, and each of their respective present, future and former directors, officers, shareholders, affiliates, assigns, associates, partners, licensees, employees, insurers, attorneys, and all persons or entities claiming or acting by, through, or in concert with them or any of them, of and from any and all Claims, whether or not they arise out of or are related to the Dispute. Further, Davidson is releasing all claims related to his employment with BioDrain including: all claims for discrimination and retaliation under any applicable federal, state, or local law, including, for example, rights and claims of discrimination and retaliation under the Minnesota Human Rights Act ("MHRA"), the St. Paul Human Rights Ordinance ("SPHRO"), the Minneapolis Civil Rights Ordinance ("MCRO"), the Age Discrimination in Employment Act ("ADEA"), the Older Workers Benefits Protection Act ("OWBPA"); the Americans with Disabilities Act, and Title VII of the Civil Rights Act of 1964 ("Title VII"); any claim for: breach of contract; wrongful termination; illegal termination; constructive discharge; termination in violation of public policy; breach of an implied contract; promissory estoppel; defamation; invasion of privacy; fraud; retaliation; and infliction of emotional distress; .all claims for any other unlawful employment practices arising out of or relating to Davidson's employment or Davidson's separation from employment; and all claims for any other form of employment compensation not provided in this Agreement ("Employment Claims"). Davidson acknowledges and agrees that Davidson's release is a general and unconditional release and that Davidson does not reserve any rights whatsoever against BioDrain or the other released parties enumerated above, except to the extent those rights are created expressly by this Agreement. This Agreement does not prohibit Davidson from filing an administrative complaint, or an administrative charge of discrimination with, or cooperating or participating in an investigation or proceeding conducted by, the Equal Employment Opportunity Commission or other federal, local or state regulatory or law enforcement agency. If Davidson has filed or files a charge or complaint, Davidson agrees that the consideration that Davidson is receiving in this Agreement completely satisfies any and all claims in connection with such charge or complaint, and that Davidson is not entitled to any other monetary relief of any kind with respect to the Claims and Employment Claims that Davidson has waived in this Agreement.

4.3. The foregoing releases in Subsections 4.1 and 4.2 of this Section shall not release or discharge any claims for relief based upon or arising out of a breach by any Settling Party of any of the obligations undertaken in or made under this Agreement. Nothing in this Agreement shall be deemed to release any claims for relief by any Settling Party that arise out of this Agreement, including, but not limited to, any claims for non-performance or breach of any Settling Party of any of the terms and conditions contained in this Agreement.

5. **Rights to Counsel, Consider, Revoke, and Rescind**

5.1. Davidson understands that BioDrain hereby advises Davidson to consult with an attorney prior to signing this Agreement and recommends that Davidson do so.

5.2. Davidson understands that Davidson has twenty-one (21) days to consider this Agreement, including Davidson's waiver of rights and claims of age discrimination and retaliation under the ADEA and the OWBPA.

5.3. Davidson has seven (7) days after Davidson signs the Agreement to revoke the Agreement.

5.4. Nothing in this Agreement prevents or precludes Davidson from challenging or seeking a decision in good faith about the validity of this waiver under the ADEA, nor does it impose any advance conditions, penalties, costs or attorneys' fees for doing so, unless specifically authorized by federal law.

5.5. Davidson also understands that Davidson has the right to rescind Davidson's release of discrimination and retaliation claims under the MHRA within fifteen (15) calendar days after the date on which Davidson signs this Agreement. The 7-day and 15-day rescission periods will run at the same time. Davidson may revoke this Agreement during the 7-day or 15-day period after Davidson signs it by putting the rescission in writing and delivering it to BioDrain in care of Bob Myers, by hand or by mail. If Davidson mails the rescission, it must be: postmarked within the applicable seven (7) or fifteen (15) calendar day period; addressed to Bob Myers, BioDrain Corporation, 2915 Commers Drive, Suite 900, Eagan, Minnesota 55121; and sent by certified mail, return receipt requested.

This Agreement shall not be effective until the revocation periods have expired. Davidson understands that if Davidson exercises Davidson's rights to revoke or rescind as provided above, this Agreement will be null and void.

6. **Risk of Discovery of New Facts.**

6.1. Each Settling Party assumes the full risk of discovery of new or more complete understanding of any fact or law pertaining to the Claims or Employment Claims **that**, if presently known, would have affected this Agreement, the decision of that Settling Party to enter into this Agreement, or that Settling Party's execution of the Agreement. Each Settling Party understands that there is a risk that after the execution of this Agreement, facts different from, or in addition to, those facts now known, or believed to be true, may be discovered. Notwithstanding this, each Settling Party freely and knowingly enters into this Agreement.

6.2. It is the intent of each Settling Party to this Agreement to release all Claims and Employment Claims that such Settling Party has against the other Settling Party, whether such Claims and Employment Claims are known or unknown, with the sole exception of claims arising from this Agreement.

6.3. Each Settling Party hereby acknowledges that there is a risk that, subsequent to the execution of this Agreement, such Settling Party may discover, incur or suffer from Claims or Employment Claims, which were unknown or unanticipated at the time this Agreement was executed. Each Settling Party acknowledges that such Settling Party is assuming the risk of such unanticipated Claims and Employment Claims, and agrees that this Agreement applies thereto.

7. **Costs and Fees.** The Settling Parties shall bear their own fees and/or costs in connection with the Dispute and this Agreement.

8. **Agreements of Davidson Relating to Confidentiality, Noncompetition and Nonsolicitation.** Davidson also hereby agrees as follows:

8.1. As used in this Agreement, "Confidential Information" includes, without limitation, all patterns, compilations, programs, and know how; designs, processes or formulae; software; market or sales information or plans, devices, methods, concepts, techniques, processes, source codes, data capture innovations, algorithms, user interface designs and database designs relating to the Company's products, services, systems or business; information acquired or compiled by the Company concerning actual or potential clients/customers, suppliers and business partners, including their identities, financial information concerning their actual or prospective business operations, identity and quantity of services and/or products provided by the Company, and any unpublished written materials furnished by or about them to the Company; and information concerning the Company's ownership, management, financial condition, financial operations, business activities or practices, sales activities, marketing activities or plans, research and development, pricing practices, legal matters, and strategic business plans. Notwithstanding the foregoing, Confidential Information does not include information in the public domain or generally known in the industry (unless due to breach of Davidson's duties under Section 8.2) or readily ascertainable from publicly available sources.

8.2. Davidson understands and agrees that his prior employment has created a relationship of confidence and trust between him and the Company with respect to all Confidential Information. At all times, Davidson will keep in confidence and trust all such Confidential Information, and will not use or disclose any such Confidential Information without the written consent of the Company, except as may be required by law or legal process. Davidson agrees to take reasonable security measures to prevent accidental or unauthorized disclosure of Confidential Information.

8.3. Except as explicitly provided in this Agreement, Davidson has returned and has not retained any documents, records, data, apparatus, equipment or other physical property, whether or not pertaining to Confidential Information, which were furnished to Davidson by the Company or were produced by Davidson in connection with his employment.

8.4. Until April 23, 2013, Davidson (i) will not, directly or indirectly, whether as owner, partner, shareholder, consultant, agent, employee, co-venturer or otherwise, engage, participate, assist or invest in any Competing Business (as hereinafter defined); (ii) will not directly or indirectly employ, attempt to employ, recruit or otherwise solicit, induce or influence any person to leave employment with the Company; and (iii) will not solicit, contact, sell to, provide services to, work with, or attempt to divert, take away or induce clients or prospective clients of the Company with whom Davidson worked, solicited, marketed, or obtained confidential information about during his employment with the Company, regarding services or products that are competitive with any of the Company's services or products. For purposes of this Agreement, the term "Competing Business" shall mean a business conducted anywhere in the United States which is competitive with the Company in regard to the business of developing, marketing, manufacturing, licensing and selling medical devices dedicated to fluid management in medical environments (including operating rooms, emergency rooms, day surgery centers, patient rooms and ambulances) which devices are similar to, perform the same function(s) as or could be used as a reasonable replacement or substitute for the device(s)/product(s) of the Company (which were in existence or being developed by the Company during Davidson's employment with the Company). Notwithstanding the foregoing, Davidson may own up to one percent (1%) of the outstanding stock of a publicly held corporation which constitutes or is affiliated with a Competing Business, and nothing herein shall preclude Davidson from performing work for or providing services to a person, company or other entity (not primarily engaged in a Competing Business) which among his/her or its businesses includes a division, section, sub-part, subsidiary or affiliated entity engaged in a Competing Business provided that Davidson is not directly or indirectly involved in any of the aspects, businesses, divisions, sections, sub-parts, subsidiaries or affiliated entities of such person, company or entity which is/are engaged in a Competing Business. The Company is providing Davidson with adequate and valuable consideration to compensate Davidson for the reasonable restrictions on his competitive activities contained within this Agreement. Davidson hereby acknowledges the consideration and that the consideration constitutes adequate and sufficient consideration for the restrictive covenants in this Agreement. Davidson agrees that the restrictions set forth in this Agreement are reasonable considering Davidson's former position. If any of the above restrictions are deemed by a court of competent jurisdiction to be unreasonable in duration or in geographical scope, it will be considered modified and valid for such duration and geographical scope as the court determines to be reasonable under the circumstances. The duration of the above restrictions will be extended beyond April 23, 2013 for a period equal to the duration of any breach or default of such covenant by Davidson. Davidson has an affirmative obligation to inform any prospective employer and/or actual employer of his post-employment obligations contained within this Agreement including his non-competition and non-solicitation obligations. Davidson understands that the restrictions set forth in this Section 8.4 are intended to protect the Company's interests including, but not limited to, its Confidential Information, established and potential employment relationships, customer and prospective customer relationships, supplier relationships, and goodwill. Davidson agrees that such restrictions are reasonable and appropriate for this purpose.

8.5. Davidson agrees that it could be difficult to measure any damages caused to the Company which might result from any breach by him of the promises set forth in this Section 8, and that in any event money damages could be an inadequate remedy for any such breach. Accordingly, Davidson agrees that if he breaches, or proposes to breach, any portion of this Section 8, the Company shall be entitled, in addition to all other remedies that it may have, to seek an injunction or other appropriate equitable relief to restrain any such breach.

9. **No Reliance on Representations Not Set Forth in this Agreement; Independent Judgment; Representations and Warranties; and Binding Effect of this Agreement.**

9.1. Each Settling Party acknowledges that at no time has any individual or entity made any representations, promises, or statements (whether oral or written) regarding the meaning, scope, benefits or obligations arising from this Agreement, except as set forth in this Agreement. Each Settling Party warrants and represents that it has not been induced to enter into this Agreement on the basis of any other representations, promises, or statements (whether oral or written) made by any Settling Party at any time, except representations set forth in this Agreement.

9.2. Each Settling Party declares and represents that such Settling Party has made such investigation of the facts relating to the matters addressed in this Agreement, as that Settling Party deems necessary. Each Settling Party further represents and warrants that in executing this Agreement that Settling Party is relying solely on such Settling Party's own judgment, belief, and knowledge and upon the advice and recommendation of that Settling Party's counsel concerning the nature, extent, and duration of such Settling Party's rights and obligations deriving from this Agreement.

9.3. Settling Party hereby represents and warrants that such Settling Party now holds all right, title to, and interest in any Claim or Employment Claim released by such Settling Party hereunder, and that such Settling Party has not assigned or otherwise transferred any right, title or interest in its Claims or Employment Claims released herein. Each Settling Party hereby covenants that it shall not assign or otherwise transfer any right, title, or interest in any Claims or Employment Claims released herein. Each Settling Party further represents and warrants that, with the exception of claims in the Dispute, such Settling Party is unaware of any other claims or lawsuits arising out of the facts that are the subject of the Dispute or that are described in the Recitals.

9.4. This Agreement and each provision thereof shall be binding upon, and inure to the benefit of, each Settling Party and such Settling Party's respective executors, administrators, representatives, successors, agents, and assigns.

10. **Authorization and Cooperation.** Each Settling Party hereby represents and warrants that such Settling Party has the requisite power and authority, and each has taken all actions necessary, including obtaining the approval of BioDrain's board of directors (in the case of BioDrain), to execute and deliver this Agreement, to consummate the transactions contemplated hereby and to perform each of that Settling Party's obligations hereunder, and no other proceedings on such Settling Party's part are necessary to authorize this Agreement. If any additional acts are required to consummate the transactions contemplated hereby and/or to perform any Settling Party's obligations hereunder, each Settling Party covenants in good faith promptly to perform such additional acts, and to execute and deliver any documents that may be reasonably necessary to give effect to the terms of this Agreement**.**

11. **Governing Law/Venue.** The Agreement shall be construed and governed in accordance with the laws of the State of Minnesota, without regard to its rules regarding conflicts of laws, and of the United States of America. Any action or proceeding brought by any Settling Party to enforce this Agreement must be brought, heard and decided only in the County of Dakota, Minnesota, and the Settling Parties hereby waive any objections they may otherwise have to personal jurisdiction or venue in said courts. In the event of a dispute hereunder, the prevailing party shall be entitled to an award of reasonable attorney's fees and costs.

12. **Interpretation.** The Agreement shall be interpreted simply and fairly and not strictly in favor of or against any Settling Party. To this end, the Settling Parties agree that the terms of the Agreement are deemed to be the product of an arm's length negotiation and to have been jointly drafted.

13. **Time of the Essence.** Time is of the essence for all provisions of this Agreement.

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14. **Modification.** Any amendment, supplement or modification of any term or condition of the Agreement must be in writing and signed by the Settling Party or Settling Parties to be bound and charged.

15. **Headings.** The Agreement uses headings for convenience and ready reference only. Such headings are not part of the terms hereof, and are not to be used or construed to define, limit, extend, modify or otherwise alter the terms and scope of this Agreement.

16. **Execution in Counterparts.** The Agreement may be executed and delivered in counterparts by the Settling Parties which, when taken together, shall constitute one and the same instrument and this Agreement, when executed by all of the Settling Parties, shall be binding on each of the Settling Parties, even though each may have executed separate counterparts of this Agreement. Facsimile signatures shall be deemed as effective as original signatures for all purposes, but originals shall be provided by each Settling Party to the other Settling Parties.

17. **Entire Agreement.** This Agreement constitutes the entire agreement between the Settling Parties pertaining to the Dispute, is fully integrated, and supersedes all prior and contemporaneous oral and written agreements, negotiations, representations, understandings, and discussions of the Settling Parties pertaining to the Dispute. In entering the Agreement, no Settling Party is relying upon any promises, warranties, representations, facts, definitions, or inducements not specifically set forth in the Agreement.

PLEASE READ THIS DOCUMENT CAREFULLY. IT CONTAINS A GENERAL RELEASE OF CLAIMS AND EMPLOYMENT CLAIMS KNOWN AND UNKNOWN.

IN WITNESS WHEREOF, the Settling Parties have executed and delivered this Agreement consisting of nine (9) pages, not inlcluding any attachments.

THE UNDERSIGNED HAVE EACH READ THE FOREGOING AGREEMENT AND AGREE TO ITS TERMS AND CONDITIONS.

[SIGNATURES ON FOLLOWING PAGE]

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Dated: October 9, 2012	BioDrain Medical, Inc.. Signed: /s/ Joshua Kornberg By: Joshua Kornberg Its: Chief Executive Officer
Dated: October 9, 2012	Atlantic Partners Alliance LLC Signed: /s/ Samuel Herschkowitz By: Samuel Herschkowitz Its: Managing Partner
Dated: October 9, 2012	SOK Partners LLC Signed: /s/ Samuel Herschkowitz By: Samuel Herschkowitz Its: Managing Partner
Dated: October 9, 2012	Joshua Kornberg Signed: /s/ Joshua Kornberg
Dated: October 9, 2012	Dr. Samuel Herschkowitz Signed: /s/ Samuel Herschkowitz
Dated: September 14, 2012	Kevin Davidson Signed:_/s/ Kevin Davidson

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use in this Amendment No. 2 to Registration Statement on Form S-1 of our audit report, dated April 16, 2012, 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.

/s/ Olsen Thielen & Co., Ltd.

St. Paul, Minnesota
October 18, 2012