As filed with the Securities and Exchange Commission on January 12, 2009

Registration Statement No. 333-155299

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

AMENDMENT NO. 1 TO FORM S-1/A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

BIODRAIN MEDICAL, INC.

(Exact name of registrant as specified in its charter)

Minnesota	3842	33-1007393
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

2060 Centre Pointe Boulevard, Suite 7
Mendota Heights, Minnesota 55120
(651) 389-4800
(Address, Including Zip Code and Telephone Number,
Including Area Code, of Registrant's Principal Executive Offices)

Kevin R. Davidson
Chief Executive Officer
2060 Centre Pointe Boulevard, Suite 7
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(651) 389-4800
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Including Area Code, of Agent for Service)

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

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

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. o

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. o

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. o

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 12b2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer (Do not check if a smaller reporting company) o	Smaller reporting company x

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be Registered	Proposed maximum offering price per share	Proposed maximum aggregate offering price	Amount of registration fee
Common stock, $0.01 par value (1)	7,101,267	N/A	$ 2,485,443	$ 97.68
Common stock underlying warrants to purchase common stock (2)	4,689,290	$ .46	$ 2,157,074	$ 84.77
Common stock underlying convertible debentures (1)	620,096	N/A	$ 217,034	$ 8.53
Common stock underlying warrants (3)	620,096	$ .35	$ 217,034	$ 8.53
TOTAL	13,030,749	N/A	$ 5,076,585	$ 199.51

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended. As a result, only the title of class of securities to be registered, the proposed maximum aggregate offering price and the amount of registration fee need to appear in this Calculation of Registration Fee table.

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

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

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

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

Subject to Completion, dated January 12, 2009

PRELIMINARY PROSPECTUS

BioDrain Medical, Inc.

13,030,749 Shares of Common Stock

$0.01 par value

This prospectus covers the resale by selling shareholders named on page 70 of up to 13,030,749 shares of common stock which include:

- 7,101,267 shares of common stock;
- 5,309,386 shares of common stock underlying common stock purchase warrants, which includes 4,689,290 and 620,096 shares of common stock underlying warrants issued in conjunction with an October 2008 financing and bridge loans we undertook in July 2007, respectively; and
- 620,096 shares of common stock underlying the convertible notes.

There is no current trading market for our securities and this offering is not being underwritten. These securities will be offered for sale by the selling shareholders identified in this prospectus in accordance with the methods and terms described in the section of this prospectus titled “Plan of Distribution.” The selling shareholders will sell the securities at a specified fixed price per share, which we estimate to be between $.35 to $.46 per share, until our shares are quoted on the OTC Bulletin Board and thereafter at prevailing market prices or privately negotiated prices. We intend to seek and obtain quotation of our common stock for trading on the OTC Bulletin Board. We intend to cause a market maker to submit an application for quotation to the OTC Bulletin Board before January 31, 2009. Westminster Securities Corporation has agreed to submit an application to the OTC Bulletin Board on our behalf. We intend to thereafter apply for trading on either the NASDAQ market or the NYSE Alternext U.S. LLC (formerly American Stock Exchange) at such time that we meet the requirements for listing on those exchanges. We do not currently meet the criteria for listing on either of the NASDAQ market or the NYSE Alternext U.S. LLC. because our share price does not meet the minimum price requirements and our current market capitalization would be insufficient for such markets.

AN INVESTMENT IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE “RISK FACTORS” BEGINNING AT PAGE 3. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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

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

The date of this prospectus is January 12, 2009

Table of Contents

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

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

Prospectus Summary

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

Our Company

BioDrain is an early-stage company developing a patented and patent-pending medical device designed to provide medical facilities with effective, efficient and affordable means to safely dispose of potentially contaminated fluids generated in the operating room and other similar medical locations in a manner that protects hospital workers from exposure to such fluids, reduces costs to the hospital, and is environmentally conscious. We are currently preparing and planning to file a 510(k) submission with the U.S. Food and Drug Administration (the "FDA") with respect to our products, the fluid management system ("FMS"), but have not yet requested or received FDA regulatory clearance to market or sell our products.

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

Risks Related to Our Business

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

The Offering

The shares issued and outstanding prior to this offering consist of 8,180,832 shares of common stock and do not include:

- 5,866,578 shares of common stock issuable upon the exercise of warrants having a range of exercise prices from $.02 to $3.76 per share (comprised of 5,309,386 shares of common stock underlying the warrants we are registering pursuant to this registration statement; 157,191 shares of common stock reserved for issuance upon the exercise of outstanding warrants granted to certain investors; and 400,000 shares of common stock reserved for issuance upon the exercise of outstanding warrants granted in connection with an intellectual property purchase agreement and consulting agreements with third parties);
- outstanding options to purchase 1,131,174 shares of our common stock;
- 975,405 shares of common stock reserved for issuance under our 2008 Equity Incentive Plan;
- 620,096 shares of common stock issued in conjunction with a bridge loan we undertook in July 2007; and
- 297,142 shares subject to issuance upon conversion of certain notes.

We are registering 13,030,749 shares for sale by the selling shareholders identified in the section of this prospectus titled “Selling Security Holders.” The shares included in the table identifying the selling shareholders consist of:

- 7,101,267 shares of common stock;
- 5,309,386 shares of common stock underlying common stock purchase warrants, which includes 620,096 shares of common stock underlying warrants issued in conjunction with a bridge loan we undertook in July 2007; and
- 620,096 shares of common stock underlying the convertible notes.

After this offering, assuming the exercise of all warrants and options with underlying shares which are covered by this prospectus, we would have 15,798,680 shares of common stock outstanding, which does not include the 975,405 shares of common stock reserved for issuance under our 2008 Equity Incentive Plan.

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

Corporate Information

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

Reverse Stock Split

On June 6, 2008, our board of directors approved a 1-for-1.2545 reverse stock split of our common stock, which resulted in the authorized number of our common stock of 20,000,000 to be proportionately divided by 1.2545 to 15,942,607. Pursuant to Section 302A.402 of the Minnesota Business Corporations Act, since the reverse stock split did not adversely affect the rights or preferences of the holders of our outstanding common stock and did not result in the percentage of authorized shares of any class or series of our stock that remains unissued after the reverse stock split exceeding the percentage of authorized shares of that class or series that were unissued before the reverse stock split, no shareholder approval was required.

On October 20, 2008, our board of directors approved a subsequent 1-for-1.33176963 reverse stock split. As a result, the authorized number of our common stock of 15,942,607 was proportionately divided by 1.33177 to 11,970,994. On October 20, 2008, our board of directors also approved a resolution to increase the number of authorized shares of our common stock from 11,970,994 to 40,000,000 and such action 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.

Unless otherwise indicated, all discussions included in this prospectus relating to the outstanding shares of our common stock, including common stock to be issued upon exercise of outstanding warrants, refer to post-second reverse stock split shares.

Risk Factors

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

Risks Related to Our Business

Our limited operating history makes evaluation of our business difficult.

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

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

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

We incurred a net loss of approximately $159,900 and $273,000, respectively for the fiscal years ended December 31, 2007 and 2006 and $928,995 and $302,100 for the nine months ended September 30, 2008 and 2007, respectively. These amounts include a significant amount of employee accrued payroll and consulting fees from a member of our board of directors. That amount was reduced by $346,700 at December 31, 2007 and consulting fees were no longer accrued in 2008. We are currently negotiating with the individuals involved to compensate them for the remaining portion of the accrual. However, there is no guarantee that these negotiations will be successful. We have never earned a profit and we anticipate that we will continue to incur losses for at least the next 12 months. We continue to operate on a negative cash flow basis. We have not yet generated revenues and are still developing our planned principal operations. These factors raise substantial doubt about our ability to continue as a going concern. We believe that we will need to raise at least an aggregate of $3 million from future offerings in order to have sufficient financial resources to fund our operations for the next 12 months because we are running a cash flow deficit. Although we will not receive any proceeds from the sale of the shares offered in this offering, we may receive up to $2,374,107 upon exercise of warrants, the underlying shares of which are included in the registration statement of which this prospectus is a part. If received, such funds will be used for general corporate purposes, including working capital requirements. However, shareholders are not obligated, and we are not currently planning on any exercising of the warrants. Accordingly, we will rely on pursuing alternative sources to obtain the entire amount of funding needed to fund our operations for the next 12 months. We may need additional funds to continue our operations, and such additional funds may not be available when required.

To date, we have financed our operations through the sale of stock and certain borrowings. From 2002 to 2006 we received approximately $110,000 in debt financing of which approximately $38,000 remains outstanding as of the date of this prospectus and $99,400 in equity financing. In March 2007 we secured a $100,000 convertible note from two private investors. In July and August 2007 we secured a convertible bridge loan of $170,000. By October 30, 2008, we closed a private placement financing of our common stock and warrants, through which we raised approximately $1.582 million to date with net proceeds of approximately $1.238 million. Approximately $331,000 will be allocated to outstanding legal fees ($75,000), finder fees ($86,000), and investor relations fees ($170,000 over the next two years).

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

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

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

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

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

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

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

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

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

Our revenues would be materially adversely affected if our 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 on December 30, 2008 (U.S. Patent No. 7,469,727). A European patent was granted to us on April 4, 2007 (Patent No. EP1539580) (collectively, "the Patents").

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 unpatentable, 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 our management believes that we would prevail in such lawsuit, there is no assurance that we will. 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 intense competition, including competition from companies with significantly greater resources than ours, and if we are unable to compete effectively with these companies, our market share may decline and our business could be harmed.

Our industry is highly competitive with numerous competitors from well-established manufacturers to innovative start-ups. A number of our competitors have significantly greater financial, technological, engineering, manufacturing, marketing and distribution resources than we do. Their greater capabilities in these areas may enable them to compete more effectively on the basis of price and production and more quickly develop new products and technologies. The total market for surgical suction canisters can be estimated at approximately $120,000,000 with a compound annual growth rate of 5% according to a publicly-available research report by Frost & Sullivan in 2003, which is available through the internet at Frost & Sullivan's website, www.frost.com, and which we did not pay for nor obtain consent to use . Cardinal Health, Inc., a $90 billion plus medical manufacturer and distributor, is the leading supplier of surgical canisters, tubing and suction products. Another one of our competitors is Stryker Instruments, a wholly-owned subsidiary of Stryker Corporation, which is a publicly-traded company with revenues of approximately $5 billion.

Although the BioDrain 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.

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

We believe that our ability to compete successfully depends on a number of factors, including our innovative and advanced research and development capabilities, strength of our intellectual property rights, sales and distribution channels and advanced manufacturing capabilities. We plan to employ these and other elements as we develop our products and technologies, but there are many other factors beyond our control. We may not be able to compete successfully in the future, and increased competition may result in price reductions, reduced profit margins, loss of market share and an inability to generate cash flows that are sufficient to maintain or expand our development and marketing of new products, which could adversely impact the trading price of our common shares.

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

We are currently preparing and planning to file a 510(k) submission with the U.S. Food and Drug Administration (the "FDA") with respect to a product classification as a Class II non-exempt device. However, there is no assurance that we will succeed in obtaining FDA approval.

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

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

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

If we do not succeed in obtaining FDA approval by August 2009, the majority-in-interest investors through our October 2008 offering have the right to cause us to restructure our business.

In July 2007, we entered into a restructuring agreement whereby in the event that we fail to obtain FDA approval by the end of August 2009, the majority-in-interest of investors ("the Investors") through our October 2008 offering would have the right to cause the Company to make the following restructuring changes:

1. All Company assets will be distributed to a wholly-owned subsidiary ("Privco"). Privco will have the identical number of common shares outstanding as the Company. The Investors will have the same percentage ownership of Privco that they had in the Company and will maintain their shares of Company common stock.

2. BioDrain's original shareholders (the "Founders") will cancel all Company stock held by the Founders only and the Founders will no longer own any Company equity. Ownership of shares of the Company's common stock by the Investors would not be affected.

3. In consideration of such cancellation, the Founders will receive Privco stock and options so that the Founders have the same percentage ownership of Privco that it had in the Company. The Company will retain the rest of Privco equity.

4. All Company stock options will be cancelled and replaced with Privco stock options.

5. The Company will have new directors and officers selected by Investors.

6. In the event of a reverse merger or other similar transaction with a new operating business, the Company will either spin-off the remaining Privco equity to the remaining Company shareholders or liquidate the Privco securities and distribute any net proceeds to the Company shareholders.

These potential restructuring changes were put in place in the October 2008 financing, which commenced in July 2007, to reduce the risk of not obtaining FDA approval for those Investors involved in that financing. We were able to attract more investors for that financing by providing the Investors with the restructuring agreement, which provides them with additional potential value (ownership of a public entity) should we not achieve FDA approval by the end of August 2009. The potential impact on our business could be to cause our operations to cease. The financial statements of the Company would show no value; rather all assets would be in Privco, the new entity. Operations could be continued from Privco, however, the Investors would have the option to liquidate our assets and distribute the proceeds to our shareholders if a reverse merger or similar transaction took place.

While the Investors from the funding completed in October 2008 would stand to benefit, as they would have ownership in both the remaining public entity and the newly created Privco, such restructuring changes could present numerous risks to our Founders and potential investors, including but not limited to, adverse effects on our results of operations from restructuring charges and merger-related costs as well as costs related to termination or replacement of employees. In addition, the loss of our officers and other key members of our management team could cause in a delay in the implementation of our business plan and no assurances can be given that the new management selected would have the same level of skill, experience and performance as our current management.

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

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

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

The medical industry has historically used a variety of technologies for fluid waste management. Compared to these conventional technologies, our technology is relatively new, and the number of companies using our technology is limited. The commercial success of our product will depend upon the widespread adoption of our technology as a preferred method by hospitals and surgical centers. In order to be successful, our product must meet the technical and cost requirements for these facilities. Market acceptance will depend on many factors, including:

- the willingness and ability of customers to adopt new technologies;

- our ability to convince prospective strategic partners and customers that our technology is an attractive alternative to conventional methods used by the medical industry;

- our ability to select and execute agreements with effective distributors and manufacturers representatives to market and sell our product; and
- our ability to assure customer use of the BioDrain proprietary cleaning fluid.

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Securities

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

There is currently no public trading market for our common stock and no such market may ever develop. While we intend to seek and obtain quotation of our common stock for trading on the OTC Bulletin Board during the first quarter of 2009, there is no assurance that our application will be approved. An application for quotation on the OTC Bulletin Board must be submitted by one or more market makers who agree to sponsor the security and who demonstrate compliance with SEC Rule 15c2-11 before initiating a quote in a security on the OTC Bulletin Board. In order for a security to be eligible for quotation by a market maker on the OTC Bulletin Board, the security must be registered with the SEC and the company must be current in its required filings with the SEC. There are no listing requirements for the OTC Bulletin Board and accordingly no financial or minimum bid price requirements. We intend to cause a market maker to submit an application for quotation to the OTC Bulletin Board before January 31, 2009. Westminster Securities Corporation has agreed to submit an application to the OTC Bulletin Board on our behalf.

Even if our application for quotation is approved, the number of persons interested in purchasing our common stock at or near ask prices at any given time may be relatively small or nonexistent. This situation may be attributable to a number of factors, including the fact that we are a small company that is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk averse and may be reluctant to follow a relatively unproven company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, assuming that our common stock is accepted for quotation, there may be periods of several days or more when trading activity in our shares is minimal or non existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot assure you that an active public trading market for our common stock will develop or be sustained.

We do not have a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 and we do not intend to register a class of our securities on a national securities exchange before this registration statement is effective. As a result, certain information and protections provided to investors of companies that have a class of securities registered pursuant to Section 12 of the Exchange Act may not be available to you.

Prior to this offering, we did not have a class of equity securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and we do not intend to register a class of our securities on a national securities exchange before this registration statement is effective. We do, however, have an obligation under Section 15(d) of the Exchange Act to file with the SEC, in accordance with such rules and regulations as the SEC may prescribe as necessary or appropriate in the public interest or for the protection of investors, such supplementary and periodic information, documents, and reports as would be required of a company with a class of securities registered pursuant to Section 12 of the Exchange Act. This duty to file such information, documents, and reports will be automatically suspended as soon as we register a class of our securities pursuant to Section 12 of the Exchange Act (or if, at the beginning of the next fiscal year after our registration becomes effective, our securities are held by less than 300 shareholders) and therefore we will no longer be required to provide you with such information. Although we may voluntarily provide ongoing disclosures regarding our business and financial results, there is no guarantee that we will do so.

Due to the fact that we do not have a class of securities registered pursuant to Section 12 of the Exchange Act, we are not currently required to abide by the proxy rules of the Exchange Act, which require certain companies registered under Section 12 of the Exchange Act to provide to its stockholders a written information statement containing information relating to annual and other meetings of stockholders, including voting rights and matters to be voted upon. Therefore, our stockholders will not receive such information until we are registered pursuant to Section 12 of the Exchange Act, if ever, unless we decide to voluntarily provide such information.

In addition, Section 26 of the Exchange Act is inapplicable to us as a non-Section 12 reporting company and therefore our investors are not protected by the rule that provides that inaction by the SEC or the Board of Governors of the Federal Reserve System, in the administration of the Exchange Act, shall not mean that such authority has in any way passed upon the merits of, or given approval to, any security or transaction under the Exchange Act. The rule also provides that inaction by such authority with regard to any statement or report filed or examined by it shall not be deemed a finding that such statement or report is true or accurate and that it is not false or misleading. Therefore, although we do not intend to make such representations, we are not bound by the rule that makes it unlawful for companies registered under Section 26 of the Exchange Act to make, or cause to be made, to any prospective purchaser or seller of a security, any representation that any such inaction by any such authority is to be construed as true, accurate or not false or misleading. As a result, our investors are not as protected from such false representations as are investors in companies that are registered under Section 12 of the Exchange Act.

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

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

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

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

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

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

We cannot give you any assurance that a broader or more active public trading market for our common stock will develop or be sustained, or that current trading levels will be sustained or not diminish. In addition to trading on the OTC Bulletin Board, our intention is to apply for trading on either the NASDAQ 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 us to be eligible to trade on the NASDAQ Capital Market, we would need 1 million publicly held shares (which is defined as total shares outstanding less shares held by officers, directors or beneficial owners of 10% or more), a bid price of $4, 300 shareholders, 3 market makers, compliance with NASDAQ's corporate governance rules, and either (1) $5 million in stockholders' equity, $15 million market value of publicly held shares and a 2-year operating history; (2) $4 million in stockholders' equity, $15 million market value of publicly held shares and $50 million market value of securities listed on NASDAQ or another national securities exchange; or (3) $4 million in stockholders' equity, $5 million market value of publicly held shares and $750,000 net income from continuing operations in the latest fiscal year or in 2 of the last 3 fiscal years. In order for us to be eligible to trade on the NYSE Alternext U.S. LLC, which is a market for small and midsized companies, we would need either (1) $750,000 of pre-tax income, $3 million market value of public float, a minimum price of $3 and $4 million in shareholders' equity; (2) $15 million market value of public float, a minimum price of $3, 2 years operating history and $4 million in shareholders' equity; (3) $50 million market capitalization, $15 million market value of public float, a minimum price of $2 and $4 million in shareholders' equity; or (4) $75 million market capitalization, $20 million market value of public float and a minimum price of $3; all in addition to either 800 shareholders with 500,000 public float (shares); 400 shareholders with 1,000,000 public float (shares); or 400 shareholders with 500,000 public float (shares) with a daily trading volume of 2,000 shares during the 6-months prior to listing. We would also need to meet the corporate governance and independent director and audit committee standards of the NYSE Alternext U.S. LLC.

If our common stock is accepted for quotation on the OTC Bulletin Board, while we are trading on the OTC Bulletin Board, the trading volume we develop may be limited by the fact that many major institutional investment funds, including mutual funds, as well as individual investors follow a policy of not investing in OTC Bulletin Board stocks and certain major brokerage firms restrict their brokers from recommending OTC Bulletin Board stocks because they are considered speculative, volatile and thinly traded.

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

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

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

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

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

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

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

Shares eligible for future sale may adversely affect the market.

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

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

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

Special Note Regarding Forward-Looking Statements

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

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

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

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

Use of Proceeds

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

Determination of Offering Price

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

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

Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters

At this time, our common shares are not traded on any public markets. We currently have 8,180,832 shares of common stock issued and outstanding. We have 88 shareholders of record of our common stock.

We also have outstanding warrants to purchase 5,866,578 shares of our common stock, which include (i) 5,309,386 shares of common stock underlying the warrants we are registering pursuant to this registration statement; (ii) 157,191 shares of common stock reserved for issuance upon the exercise of outstanding warrants granted to certain investors; and (iii) 400,000 shares of common stock reserved for issuance upon the exercise of outstanding warrants granted in connection with an intellectual property purchase agreement and consulting agreements with third parties. We also have outstanding options to purchase 1,131,374 shares of our common stock, which include 300,000 shares of common stock reserved for issuance upon the exercise of outstanding options granted pursuant to employment agreements with an officer and an employee of the Company.

After this offering, assuming exercise of all the warrants, we will have 15,798,680 shares of common stock outstanding, which does not include 975,405 shares of common stock reserved for issuance under our 2008 Equity Incentive Plan and 297,142 shares underlying certain convertible notes, but which does include outstanding notes that may be converted into 620,096 shares of our common stock which were issued in conjunction with a bridge loan we undertook in July 2007. Of the amount outstanding, 950,995 shares could be sold pursuant to Rule 144 under the Securities Act of 1933, as amended (assuming compliance with the requirements of Rule 144).

Dividends

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

Securities Authorized for Issuance under Equity Compensation Plans

On October 20, 2008, our board of directors approved the BioDrain Medical, Inc. 2008 Equity Incentive Plan (the "Plan") to promote the success of the Company by providing incentives to our directors, officers, employees and contractors by linking their personal interests to the long-term financial success of the Company, and to promote growth in shareholder value. The Plan is subject to the approval of our shareholders, and if it is not so approved on or before 12 months after the date of adoption of the Plan by our board of directors, it shall not come into effect and any options granted pursuant to the Plan will be deemed cancelled. Awards may be granted only to a person who on the date of the grant is a director, officer, employee or contractor of the Company (or a parent or subsidiary of the Company), subject to certain restrictions set forth in the Plan. Awards granted under the Plan shall be evidenced by an award agreement and shall consist of:

(i) incentive stock options, as defined in Section 422 of the Internal Revenue Code of 1986 (the "Code");

(ii) nonqualified stock options, defined as any option granted under the Plan other than an incentive stock option;

(iii) stock appreciation rights ("SARs"), defined as an award granted under the Plan that is exercisable either in lieu of options, in addition to options, independent of options or in any combination thereof, which, upon exercise, entitles the holder to receive payment of an amount determined by multiplying (a) the difference between the fair market value of a share on the date of exercise and the exercise price established by the administrator of the Plan on the date of grant by (b) the number of shares with respect to which the SAR is exercised, the payment of which will be made in cash or stock; or

(iv) restricted stock, defined as stock granted under the Plan that is subject to restrictions on sale, transfer, pledge, or assignment.

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

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

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

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

Options

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

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

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

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

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

Stock Appreciation Rights

The committee shall have the sole discretion, subject to the requirements of the Plan, to determine the actual number of shares subject to SARs granted, to specify the period of time over which vesting shall occur and to provide for the acceleration of vesting upon the attainment of certain goals, provided, however that the exercise of a SAR shall not be less than the fair market value of a share of the Company's stock on the date of grant. Unless specified by the committee at the time the SAR is granted, SARs shall have the same vesting schedule as options. The term of a SAR granted under the Plan shall be determined by the committee, but shall not exceed 10 years and if not specified by the committee at the time of grant, each SAR shall expire at the close of business on the date preceding the 10th anniversary of the date of grant.

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

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

Restricted Stock

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

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

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

Other Securities For Issuance Upon Certain Contingencies

Please refer to the Management's Discussion and Analysis of Financial Condition and Result of Operations Section on page 32 for a discussion of other securities for issuance upon certain contingencies.

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

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

Overview

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

Since inception, we have been unprofitable. We incurred net losses of approximately $159,900 for the fiscal year ended 2007 and $273,000 for the fiscal year ended 2006. As of September 30, 2008, we had an accumulated deficit of $1,717,667. As a company in the early stage of development, our limited history of operations makes prediction of future operating results difficult. We believe that period to period comparisons of our operating results should not be relied on as predictive of our future results.

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

Since we do not expect to generate sufficient revenues in 2009 to fund our capital requirements, our capital needs for the next 12 months are expected to be at approximately $3 million, even though we plan to use outside third party contract manufacturers to produce the FMS and outside distributors to inventory and sell the FMS. Our future cash requirements and the adequacy of available funds will depend on our ability to complete our regulatory work (i.e. FDA approvals) in a timely manner so that we can generate cash flow to be self-sufficient. We do expect that we will require additional funding to finance operating expenses and to enter the international marketplace.

As of September 30, 2008, we have funded our operations through 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 common stock that were issued in December 2006. In August 2006, we secured a $10,000 convertible loan from one of our vendors. In February 2007, we raised $4,000 in officer and director loans and in March 2007, we secured a $100,000 convertible note from two private investors. In July and August 2007, we secured a convertible bridge loan of $170,000. In June 2008, we paid off the remaining $18,000 loan from WREF and have raised a net of $1,238,000 to date through our October 2008 financing.

Critical Accounting Policies and Estimates

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

Accrued liabilities are based on amounts computed from operations; for example it contains approximately $84,000 of unpaid consulting fees. Accrued interest is computed from outstanding loans at agreement interest rates. Compensation expense is based on estimates of stock option and warrants valuation at issue amounts. Most of the warrant issue valuation is priced at $.46 per share, the price which investors in the October 2008 funding were granted. The major assumption in these valuations was that we believed that these initial valuations were going to improve by completing regulatory approvals such as with TUV SUD America, Inc. and the FDA and that they would add value to the initial investment valuation, as we were advised by regulatory consultants whom we trust that such approvals were forthcoming and had a high probabilities of success.

Our accounting estimates and assumptions bear various risks of change, including the length of the current recession 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, failure to successfully obtain approvals of electrical safety testing and from the FDA, and failure to gain acceptance in the medical market.

Results of Operations

Nine Months Ended September 30, 2008 and 2007

Revenue. None.

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

General and administrative expense increased from $126,300 for the nine months ended September 30, 2007 to $826,400 for the nine months ended September 30, 2008. General and administrative expense increased primarily due to an increase in compensation expense of $210,400, an increase in professional service fees of $194,000 and an increase in salaries of $300,000. The increase in compensation expense resulted from accounting for stock option awards using the calculated value method. Professional fees increased due to expenses related to the preparation and filing of our Form S-1 registration statement. Salaries increased as a result of paying full annual salary rates in 2008 from 75% salary rates in 2007. We anticipate that general and administrative expense will increase in absolute dollars as we incur increased costs associated with a growing company, of adding personnel and proceeding from the development phase to the operating phase, and operating as a public company.

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

Research and development costs increased from $400 for the nine months ended September 30, 2007 to $91,400 for the nine months ended September 30, 2008. The increase was a result of an accumulation of unbilled work from 2003 through 2007. Such work consisted of material and labor charges for building and testing various improvements in our FMS unit, including pumps, sensors, and cover. Mid-State Stainless, Inc., the company who performed the product development work and owned by Marshall Ryan, notified the Company in late 2007 that the amount for all development costs totaled $100,000 and would be billed to us as a lump sum in 2008. The amount has not yet been paid and remains in accounts payable as of the date of this registration statement. We expect our development expense to increase a moderate amount in future periods as we finalize our product for market.

Interest expense. Interest expense decreased from $18,800 for the nine months ended September 30, 2007 to $11,100 for the nine months ended September 30, 2008 primarily due to $37,000 of debt retirement for common stock to WREF in December 2007.

Years Ended December 31, 2007 and 2006

Revenue. None

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

General and administrative expense decreased from $191,700 in 2006 to $125,300 in 2007. General and administrative expense decreased primarily due to an elimination of accrued payroll expenses of $346,700 and a reduction in salaries. This also explains the decrease in general and administrative expense from $153,900 as of June 30, 2007 to $125,300 as of December 31, 2007. Compensation for the individuals involved in the transaction was agreed to be paid when we reached a total of $3 million in funding. In APB 26, we are shown three options in accounting for early extinguishment of debt, two of which involve amortization over the life of an old or new issue. Since no issue is involved, the third option, a recognition to income or expense is the likely choice. It is not a capital contribution because there is consideration in the form of cash ($115,000) and stock options (240,000 shares of common stock at $.35 per share). The difference between the debt reduction and the new considerations should not be the basis for a difference recognition to profit and loss due to the variability potential for the stock price and the uncertainty of a second financing specified as a requirement for the consideration to be paid. Therefore, the transaction is an immediate reduction in an expense.

Actual salaries in 2007 were $170,200 greater than in 2006 due to the addition of an executive member in October 2006. Professional fees were up by $68,700 from the legal and accounting fees incurred in preparing our 2008 Private Placement Memorandum and there was an increase of $38,000 in consulting fees for human resources work.

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

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

Liquidity and Capital Resources

As of September 30, 2008, we had a cash balance of $744,900. Since our inception, we have incurred significant losses and as of September 30, 2008 we had an accumulated deficit of $1,717,700. We have not achieved profitability and anticipate that we will continue to incur net losses for the foreseeable future. We expect that our research and development and general and administrative expenses will increase, and as a result we will need to generate significant revenue to achieve profitability.

The table below summarizes our currently known capital requirements and amounts needed to satisfy our outstanding obligations.

Capital Requirements

Expense Item	Amount	Total
Accrued payroll expense as of September 30, 2008	$	$ 240,000
Inception through November 2007	115,000	
December 2007 through April 2008	121,000	
FDA and electrical safety testing approval expenses		222,000
Expected expenses in connection with our current offering		225,200
SEC registration fee	200	
Printing fees	30,000	
Legal fees and expenses	80,000	
Accounting fees and expenses	60,000	
Miscellaneous	55,000	
Financing fees owed in connection with our current offering (1)		0
Outstanding debt payments to:		450,000
Carl and Roy Moore	100,000	
Marshall C. Ryan	100,000	
Richardson & Patel LLP	100,000	
Larkin Hoffman	100,000	
Andcor Companies, Inc.	50,000	
Other operating expenses		1,200,000
Market expansion to Europe and Pacific Rim		500,000
Personnel additions		200,000
Miscellaneous		100,000
Total		$ 3,137,200

(1) All fees were withheld by the broker of our current offering.

There is no certainty that access to needed capital will be successful and depends in part on our ability to continue as a going concern, which could also make funding more expensive. We have not relied on the exercise of outstanding warrants for providing additional funding.

To date, our operations have been funded through a bank loan in the amount of $41,400, seed loans totaling $10,000 and equity investments totaling $1,337,100. As of September 30, 2008, we had accounts payable of $284,600 and accrued liabilities of $277,100, $169,700 of which are for accrued payroll from December 2007 to present.

Nine Months Ended September 30, 2008 and 2007

Net cash used by operating activities was $787,100 for the nine months ended September 30, 2008 as compared with net cash used of $235,400 for the nine months ended September 30, 2007. The increase was due primarily to a greater net loss of $626,900, an increase in accrued payroll expenses of $49,000, an increase in escrow cash of $163,300, and an increase in vested options of $193,900. Net cash used by investing activities was $29,900 for the nine months ended September 30, 2008 as compared with $43,500 for the nine months ended September 30, 2007. The difference was due to the larger legal expense in intellectual property of $22,200 that was partially offset by the purchase of office furniture in 2008 amounting to $8,700. Net cash provided by financing activities was $1,557,700 for the nine months ended September 30, 2008 and $295,600 for the nine months ended September 30, 2007. The difference was due to the receipt of initial investment capital from the funding that commenced prior to June 2008 and was completed as of October 2008.

Years Ended December 31, 2007 and 2006

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

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

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

Based on our current operating plan we believe that we have sufficient cash, cash equivalents and short-term investment balances to last approximately through the end of the first and second quarters of 2009, during which time a secondary financing is anticipated of approximately $3 million. While holders of our warrants could exercise and provide cash to us during that time frame, we are not counting on that in our fund raising efforts. Our efforts regarding our next round of financing have already commenced, and while the current investment market has not been desirable and our early-stage position increases risks to investors, we are confident that we will have the ability to raise approximately $3 million during this time period.

The funds remaining from our October 2008 offering will allow us to complete all necessary electrical safety testing of our product and to fund all expenses associated with achieving FDA approval. We are confident that our existing funds will also be sufficient to pay for all expenses associated with this and any previous financings undertaken by the Company.

Items such as accrued payroll and certain convertible loan debts, totaling $270,000, would be difficult to fully satisfy with the proceeds of the past financings. We have been in contact with the holders of these convertible notes. These holders, while technically able to request payments, have an understanding of our early-stage position and have been willing to work with us regarding the satisfaction of their convertible debts, which could be satisfied either from conversion to our common stock or through repayment of the debt from funds raised in future financings. Any formal payment demand by these convertible note holders prior to our securing additional financing would create a liquidity issue for the Company.

Accrued payroll expense items are due to management and board members. All individuals are aware of the liquidity position of the Company and all individuals have agreed to not be reimbursed until such time as the Company obtains at least another $3 million of additional financing, with the exception of Lawrence Gadbaw, our Chairman, who is currently receiving $2,000 per month toward payment of his accrued salary liability. These payments commenced in October 2008, and the beginning balance, which is being reduced by $2,000 per month, was $46,000 prior to the first payment in October.

We believe that we have sufficient funds to satisfy reporting obligation under the Exchange Act at least through the first half of 2009. We will need additional funds to continue to satisfy such obligations beyond that time period.

The Company’s management and board members have extensive contacts in the capital markets sector and fund raising efforts for the next financing have already commenced. While there is risk in this process, and the Company is early stage and pre-revenue, we believe that the progress we have made and the opportunities ahead of us will allow us to be successful in raising additional funds.

Our operating plan assumes that we will achieve certain levels of operating costs and expenses, as to which there can be no assurance that we will be able to achieve. This plan is completely dependent on our ability to raise additional capital through future financings. In addition, if events or circumstances occur such that we are unable to meet our operating plan as expected, we will be required to seek additional capital, pursue other strategic opportunities, or we will be forced to reduce the level of expenditures, which could have a material adverse effect on our ability to achieve our intended business objectives and to continue as a going concern. Even if we achieve our operating plan, we will be required to seek additional financing or strategic investments.

In order to secure the next round of financing, we have commenced communications with investment banks regarding completion of a secondary offering, to be completed once we are effectively trading on the OTC Bulletin Board. We have also communicated with potential individual, corporate and venture capital investors regarding another financing. Further, existing shareholders from the financing completed October 2008 have expressed an interest in additional investments into the Company.

While the current economic turmoil does have an impact on the overall funding environment, we are confident that our opportunity will be positively received by potential investors. Our product provides safety and efficiency benefits to hospitals. Additionally, our product development is now complete, so there will be nominal, if any, additional expenses incurred for the development of our product. 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. A significant amount of usage of funds will be utilized to launch our product into the market. With the funds already available to fund our expenses associated with FDA approval, and with the product development complete, future funds will be used primarily to launch our product into the market.

There can be no assurance that any additional financing will be available on acceptable terms, if at all. Furthermore, any equity financing may result in dilution to existing shareholders and any debt financing may include restrictive covenants.

Commitments and Contingencies

Effective September 30, 2008, we had notes payable to several individuals and entities, including a bank loan of $41,400; $10,000 due to one of our vendors in connection with a convertible loan; $4,000 of officer and director loans; $100,000 due to two private investors in connection with a convertible note; and $170,000 of a bridge loan.

The Company has a convertible debenture with Andcor Companies, Inc. (“Andcor”) of $10,000 at 10.25% that matured in 2007 and is now overdue. The debenture is convertible to shares of the Company’s common stock at $0.90 per share or the price per share at which the next equity financing agreement is completed. The convertible debenture has not yet been paid, and it is currently past due. The Company has had conversations with Andcor who understands our potential liquidity issues. While Andcor could demand payment on this note at any time, they have expressed an interest in working with us to wait until additional funds are secured by the Company. Further, Andcor has left open the possibility of converting the note into shares of the Company’s common stock, which would require no cash outlay by the Company at this time.

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

	Payment Due by Period as of September 30				
	Total	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Long Term Debt	$ 129,559	$ 11,800	$ 29,559	$ 100,000	—
Operating Leases	—	—	—	—	—
Capital Leases	—	—	—	—	—
Total Contractual Cash Obligations	$ 129,559	$ 11,800	$ 29,559	$ 100,000	—

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

	September 30, 2008	September 30, 2007
Notes payable to several individuals due April 2008 including 8% fixed interest and is now overdue. The notes are convertible into 620,096 shares of the Company's common stock and automatically convert at the effective date of this registration statement.	$ 170,000	$ —
Note payable to bank in monthly installments of $1,275/including variable interest at 2% above the prevailing prime rate (7.00% at June 30, 2008) to August 2011 when the remaining balance is payable. The note is personally guaranteed by executives of the Company.	41,359	49,901
Note payable to NWBDC in interest only payments at 8% to December 2008 when the remaining balance is payable. The note is personally guaranteed by executives of the Company.	—	18,000
Notes payable to two individuals in interest only payments at 12% to March 2012 when the remaining balance is payable. The notes are convertible into 285,715 shares of stock in the Company at $.35 per share.	100,000	100,000
Notes payable to four shareholders of the Company that are overdue. The notes are convertible into 11,429 shares of stock in the Company at $.35 per share.	4,000	4,000
Total	315,359	181,901
Less amount due within one year	185,800	39,900
Long-Term Debt	$ 129,559	$ 142,001

Cash payments for interest were $2,718 on September 30, 2008 and $3,964 in 2007. Principal payments required during the next five years are: 2009 - $185,800; 2010 - $12,000; 2011 - $13,300; 2012 - $107,300; and 2013 - $0. The notes payable of $10,000, $170,000, $100,000 and $4,000 have passed their due dates and could be called by the holders, putting additional strains on our capital requirements. The note for $170,000 contains penalties amounting to a one-time penalty of $25,000 if this registration statement is not filed within 120 days of August 31, 2008 and $5,000 per month until the registration statement is declared effective by the SEC after 180 days from August 31, 2008, with the maximum penalty of approximately $250,000 if the registration statement is not declared effective within 180 days from August 31, 2008.

In July 2007, we entered into a restructuring agreement whereby in the event that we fail to obtain FDA approval by the end of August 2009, the majority-in-interest of investors ("the Investors") through our October 2008 offering would have the right to cause the Company to make the following restructuring changes:

1. All Company assets will be distributed to a wholly-owned subsidiary ("Privco"). Privco will have the identical number of common shares outstanding as the Company. The Investors will have the same percentage ownership of Privco that they had in the Company and will maintain their shares of Company common stock.
2. BioDrain Original Shareholders (the "Founders") will cancel all Company stock held by the Founders only and the Founders will no longer own any Company equity. Ownership of shares of the Company's common stock by the Investors would not be affected.
3. In consideration of such cancellation, the Founders will receive Privco stock and options so that the Founders have the same percentage ownership of Privco that it had in the Company. The Company will retain the rest of Privco equity.
4. All Company stock options will be cancelled and replaced with Privco stock options.
5. The Company will have new directors and officers selected by Investors.
6. In the event of a reverse merger or other similar transaction with a new operating business, the Company will either spin-off the remaining Privco equity to the remaining Company shareholders or liquidate the Privco securities and distribute any net proceeds to the Company shareholders.

These potential restructuring changes were put in place in the October 2008 financing to reduce the risk of not obtaining FDA approval for those Investors involved in that financing. We were able to attract more investors for that financing by providing the Investors with the restructuring agreement, which provides them with additional potential value (ownership of a public entity) should we not achieve FDA approval by the end of August 2009. The potential impact on our business could be to cause our operations to cease. The financial statements of the Company would show no value; rather all assets would be in Privco, the new entity. Operations could be continued from Privco, however, the Investors would have the option to liquidate our assets and distribute the proceeds to our shareholders if a reverse merger or similar transaction took place. Please see page 54 for further information regarding the Founders and the Investors.

In 2007, Mr. Davidson and Mr. Rice each earned less in base salary than they were entitled to under their employment agreements due to lack of funds by the Company. In December 2007, upon request from our funding brokers, the Company reduced accrued payroll liabilities by a total of $346,714 through November 2007. This total was approximated from waived compensation from Mr. Davidson in the amount of $70,000, waived compensation from Mr. Rice in the amount of $125,000, waived compensation from Mr. Gadbaw in the amount of $138,541 and waived compensation from an employee who left the Company in April 2006 in the amount of $13,369. In exchange therefor, Mr. Davidson was granted a one-time cash bonus of $23,000 as well as options to purchase 80,000 shares of common stock at $.35 per share and Mr. Rice was granted a one-time cash bonus of $46,000 as well as options to purchase 160,000 shares of common stock at $.35 per share. The shares will vest and the bonuses will be paid when the Company raises an additional $3 million of funding subsequent to the financing completed in October 2008. Mr. Gadbaw was granted options to purchase 160,000 shares of common stock at $.35 per share, the vesting of which is also contingent upon the Company raising an additional $3 million and is currently receiving $2,000 per month until a total of $46,000 of accrued salary liability is paid to him. To date there have been no stock issuances from these option grants.

Amortization of Intangible Assets

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

Income Tax Expense

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

Stock Options and Warrants

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

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

We have elected to use the Black-Scholes-Merton option pricing model. The fair value of these options was calculated using a risk-free interest rate of 3.49% to 5.07%, an expected life of 5 years and an expected volatility and dividend rate of 0%. Compensation recognized in our financial statements was $10,962 and $13,644 for the years ended 2007 and 2006, respectively, and $210,389 and $8,245 for September 30, 2008 and 2007, respectively.

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

	Stock Options (1)		Warrants (1)	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding at December 31, 2005	17,956	$ 1.67	20,950	$ 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	5,985	1.67	28,502	0.35
Outstanding at December 31, 2007	47,882	$ 1.67	121,278	$ 1.04
Issued	1,083,292	0.17	4,853,772	0.45
Outstanding at September 30, 2008	1,131,174	$ 0.24	4,975,050	0.46

(1) Adjusted for the reverse stock splits in total at June 6, 2008 and October 20, 2008, or 1-for-1.670705.

At December 31, 2007, 23,942 stock options were fully vested and exercisable and 121,278 warrants were fully vested and exercisable. At September 30, 2008, 651,174 stock options were fully vested and exercisable and 4,850,050 warrants were fully vested and exercisable.

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

Range of Exercise Prices	Shares	Weighted Average Remaining Life
At December 31, 2007:		
Options:		
$.35	11,970	4.37
$1.67	41,898	3.31
Warrants:		
$0.02	35,913	5.45
$0.35	28,502	4.17
$1.67	44,892	3.69
$3.34	11,971	0.79
At September 30, 2008:		
Options:		
$.01	543,292	9.68
$.35	540,000	4.61
$1.67	47,882	3.15
Warrants:		
$0.02	71,826	5.70
$0.35	178,502	4.01
$0.46	4,667,859	2.75
$1.67	44,892	2.94
$3.76	11,971	0.04

Stock options and warrants expire on various dates from October 2008 to December 2013. In October 2007, the exercise price on the $3.34 warrants changed to $3.76 in accordance with a common stock warrant purchase agreement.

We determined that 1,920,000 shares of our common stock were to be allocated to our shareholders existing at the time of the October 2008 financing (also referred to as the original shareholders, the Founders, or the selling shareholders). Since the total of our fully-diluted shares of common stock was greater than 1,920,000, our 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. 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 were performed, the number would have been a reverse stock split of 1-for 1-670705.

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

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

On October 20, 2008, our board of directors also approved a resolution to increase the number of authorized shares of our common stock from 11,970,994 to 40,000,000, 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 table below reflects the effect of the reverse stock splits on our shares outstanding.

Reverse Stock Split Table

	Number of Shares Outstanding			Reverse Split Ratio
	Before		After	
As of June 30, 2008:				
- original shareholders	1,351,105	(1)	1,077,007	1.2545
- new investors, other	3,720,293		3,720,293	
Total	5,071,398		4,797,300	
As of September 30, 2008:				
- original shareholders	1,077,007		1,077,007	
- new investors, other	6,997,842		6,997,842	
Total	8,074,849		8,074,849	
As of October 20, 2008:				
- original shareholders	1,077,007		808,704	1.3317696
- new investors, other	6,997,842		6,997,842	
Total	8,074,849		7,806,546	
As of October 30, 2008 (closing date):				
- original shareholders	808,704			
- new investors, other	7,372,128			
Total	8,180,832			

(1) 1,351,105 divided by 1.670705 equals 808,704.

Warrants

In 2005 and 2006, we granted warrants to purchase an aggregate of 17,958 shares (options to purchase 2,993 shares each) of common stock at $1.67 per share to Debbie Heitzman, Mary Wells Gorman and David Feroe for their services on the Medical Advisory Board and to Karen Ventura, Nancy Kolb and Kim Shelquist for their sales and marketing advisory services.

In 2006, we granted warrants to purchase 35,913 shares of common stock at $.02 per share to Dr. Arnold Leonard for his services on the Medical Advisory Board. The warrants contain an anti-dilution provision that provides that such shares would double upon our total outstanding shares reaching 2 million. The second warrants to purchase 35,913 shares of our common stock were granted in June 2008 upon receiving 2 million outstanding shares of common stock through the October 2008 financing.

On December 1, 2006, we fully repaid two of our three loans due to Wisconsin Rural Enterprise Fund ("WREF"). As of December 2006 the total principal due was $37,500. To pay the outstanding loan to WREF, we issued warrants to purchase 20,949 shares of common stock at $1.67 per share to WREF.

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

In 2006, we issued warrants to purchase 5,985 shares of common stock at $1.67 per share to Andcor Companies, Inc. as part of a convertible loan agreement.

In 2007, we granted warrants to purchase up to 28,502 shares of common stock at $.46 per share to Roy Moore and Carl Moore as part of a convertible loan agreement with them. There were no special terms contained in the warrant other than that the two individuals would pay a per share price equal to that of the October 2008 financing when exercising their warrants.

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

We issued warrants to purchase an aggregate of 4,552,862 units to investors in connection with the October 2008 financing, which was comprised of one share of common stock for $.35 per share and one warrant to purchase one share of common stock for $.46 per share.

Stock and Stock Options

On August 22, 2005, we issued options to purchase 17,957 shares of our common stock at $1.67 per share to a member of our board of directors, Thomas McGoldrick, for his services as a director. The options were grantable annually at 10,000 per year starting in 2008. On August 22, 2006, we issued options to purchase 5,986 shares of common stock at $.46 per share to Mr. McGoldrick in connection with a stock option agreement with him.

On December 14, 2005, we issued 7,482 shares of common stock to officers Lawrence Gadbaw and Gerald Rice for personal guarantees on Company loans.

On May 16, 2006, the Company issued 71,906 shares of common stock to the inventor of our intellectual property, Marshall C. Ryan, for the development work he performed with respect to our product.

On August 8, 2006, we issued 14,964 shares of common stock to Andcor Companies, Inc. in partial payment of an invoice.

On October 23, 2006, we issued 8,979 shares of common stock to a former employee as a part of his compensation package in his employment agreement.

On November 11, 2006,we issued options to purchase 17,957 shares of common stock at $1.67 per share to Andrew Reding, for his services as a director. The options were grantable annually at 10,000 per year starting in 2007. On November 11, 2007, we granted options to purchase 5,986 shares of common stock at $.46 per share to director Andrew Reding pursuant to a stock option agreement with him.

On December 1, 2006, we issued 3,986 shares of common stock to pay a consulting fee to Wisconsin Business Innovation Corporation, a related firm of WREF.

On January 30, 2007 we fully repaid a Company loan of $1,000 due one of its former employees by issuing him 599 shares of common stock.

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

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

On June 16, 2008, we entered into an employment agreement with Chad Ruwe, Executive Vice President of Operations, pursuant to which we granted him options to purchase 50,000 shares of common stock.

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

On August 11, 2008, we entered into an employment agreement with David Dauwalter, Director of Sales, pursuant to which we granted him options to purchase 50,000 shares of common stock.

In 2006, Kevin Davidson was granted 50,000 shares of the Company's common stock in connection with his entering into an employment agreement with the Company. The grant contained an anti-dilution protection amounting to 3.81% of the fully-diluted outstanding common stock of the Company up to the completion of the first $1,000,000 of new funding raised, which pursuant to an option agreement dated June 5, 2008 amending his employment agreement, Mr. Davidson chose to receive in options to purchase 543,292 shares of common stock, exercisable at $.01, in lieu of obtaining the shares to which he was entitled. The options vest immediately and the term of the options is 10 years from the date of issuance. In 2008, Mr. Davidson achieved the $1 million funding target provided for in his employment agreement and on September 12, 2008 the Board of Directors ratified the issuance of the 543,292 options to Mr. Davidson as a result of the milestones achieved.

Other Securities For Issuance Upon Certain Contingencies

In 2007, three of our directors/executive officers, Lawrence Gadbaw, Gerald Rice and Kevin Davidson, and a former employee that left the Company in April 2006, agreed to waive an aggregate of approximately $346,700 in accrued, unpaid salaries for their services through June 2007 and Mr. Morawetz agreed to waive his consulting fees of $84,963 (please see description below). In December 2007, upon request from our funding brokers, we reduced accrued payroll liabilities by $346,714 through November 2007. This total was approximated from waived compensation from Mr. Davidson in the amount of $70,000, waived compensation from Mr. Rice in the amount of $125,000, waived compensation from Mr. Gadbaw in the amount of $138,541 and waived compensation from an employee who left the Company in April 2006 in the amount of $13,369. In exchange therefor, Mr. Gadbaw and Mr. Rice were each granted options to purchase 160,000 shares of common stock and Mr. Davidson was granted options to purchase 80,000 shares of common stock, all at $.35 per share with vesting contingent upon the Company raising an additional $3 million in financing subsequent to the October 2008 financing. To date there have been no stock issuance from these grants. In addition, Mr. Rice will receive one-time cash bonus of $46,000 and Mr. Davidson will receive one-time cash bonus of $23,000 when the Company raises an additional $3 million subsequent to the October 2008 financing and Mr. Gadbaw is currently receiving $2,000 per month until a total of $46,000 of accrued salary liability is paid to him.

In September 2002, an oral agreement was made with director Peter Morawetz whereby he would provide sales, marketing and general administrative support to the Company for a fee of $1,770 per month. The Company's expectation at the time was that the Company would have received equity financing to fund these payments. The Company did not receive that funding. Pursuant to an oral agreement with Mr. Morawetz the Company did not pay these amounts. The Company accrued these fees through August 2006 when Mr. Morawetz's support services ended. The fees accrued totaled $84,963 but no amount has been paid. Mr. Morawetz and the Company have discussed reducing the fees to be paid to a lower amount and, although no agreement has been reached, the parties have reached an oral understanding that the amount to be paid will be less. Based on this understanding, the Company has not accrued any expense or liability for Mr. Morawetz's services.

On June 16, 2008, in connection with Chad Ruwe's employment agreement, in addition to the grant of options to purchase 50,000 shares of common stock, we granted Mr. Ruwe options to purchase up to 200,000 shares of our common stock contingent upon reaching certain performance goals, the timing of which was not set. We believe that these performance goals will be met, with respect to 100,000, in the fourth quarter of 2008 and, with respect to the other 100,000, in the first or second quarters of 2009.

On August 11, 2008, in connection with David Dauwalter's employment agreement, in addition to the grant of options to purchase 50,000 shares of common stock, we granted Mr. Dauwalter options to purchase up to 40,000 shares of common stock contingent upon reaching certain performance goals, the timing of which was not set. We believe that these goals will be met, with respect to 30,000 in the first and second quarters of 2009 and 10,000 in the third and fourth quarters of 2009.

In August and September 2008 we agreed to issue warrants to purchase 75,000 shares of common stock to each of two human resource consulting firms, Andcor Companies, Inc. and Taylor & Associates, Inc., as payment for their search for candidates to fill the position of Vice President of Sales and Marketing for our Company. With respect to Andcor Companies, Inc., the Company reduced a contingency agreement with them dated July 25, 2008 from 30% of compensation of the candidate if hired, to warrants to purchase 75,000 shares of common stock at $.46 per share. Andcor will not earn the warrants until the candidate is hired and remains an employee for a period of at least 1 year.

On October 20, 2008, we entered into an agreement with Gregory Sachs, a regulatory consultant, pursuant to which the Company granted warrants to purchase up to 50,000 shares of our common stock contingent upon reaching certain performance goals from April 1, 2009 to June 30, 2009. Mr. Sachs is assisting the Company in obtaining FDA 510(k) approval. The purpose of the performance goal provision is to help to ensure a timely approval of the 510(k). Upon reaching FDA approval by April 1, 2009, Mr. Sachs would receive warrants to purchase 50,000 shares of our common stock; after April 1, 2009, but on or prior to May 1, 2009, he would receive warrants to purchase 25,000 shares of our common stock; after May 1, 2009, but on or before June 30, 2009, he would receive warrants to purchase 10,000 shares of our common stock; and after June 30, 2009, he would receive no warrants.

Litigation

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

Off-Balance Sheet Arrangements

We do not have any off-balance sheet transactions.

Dividend Policy

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

Description of Business

Overview

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

We were founded as a Minnesota corporation in 2002 by Lawrence 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, Jay Nord and Jeffery K. Drogue. Our address is 2060 Centre Pointe Boulevard, Suite 7, Mendota Heights, Minnesota 55120. Our telephone number is (651) 389-4800 and our website address is www.biodrainmedical.com. The website is not a part of this registration statement.

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

Private Placement Financing

From July 2007 through October 2008, we completed a private placement financing of our common stock and warrants to certain accredited and institutional investors (the “Investors”). We received gross proceeds of approximately $1.6 million to date from this private placement financing. Pursuant to securities purchase agreements entered into with these Investors, we sold an aggregate total of 4,552,862 units at a price per unit of $0.35 and with each unit consisting of one share of our common stock, par value $0.01 per share, and one warrant to purchase one share of our common stock at $0.46 per share. We also issued 547,285 shares and 136,429 warrants to consultants who provided services in connection with the private placement.

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

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

Industry and Market Analysis

Infectious and Biohazardous Waste Management

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

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

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

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

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

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

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

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

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

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

Current Techniques of Collecting Infectious Fluids

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

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

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

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

Although all of these protection and disposal techniques are helpful, they represent a piecemeal approach to the problem and fall short of providing adequate protection for the surgical team and other workers exposed to infectious waste. A major spill of fluid from a canister, whether by direct contact as a result of leakage or breakage, splash associated with the opening of the canister lid to add gel, while pouring liquid contents into a hopper, or during the disposal process, is cause for concern of acute exposure to human blood components–one of the most serious risks any worker faces in the performance of their job. Once a spill occurs, the entire area must be cleaned and disinfected and the exposed worker faces a potential of infection from bloodborne pathogens. These pathogens include, but are not limited to, HIV, HPV, and other infectious agents. Given the current legal liability environment the hospital, unable to identify at-risk patients due to concerns over patient rights and confidentiality, must treat every exposure incident as a potentially infectious incident and treat the exposed employee according to a specific protocol that is both costly to the facility and stressful to the affected employee and their co-workers. In cases of possible exposure to communicable disease the employee could be placed on paid administrative leave, frequently involving worker's compensation, and additional workers must be assigned to cover the affected employee's responsibilities. The facility bears the cost of both the loss of the affected worker and the replacement healthcare worker in addition to any ongoing heath 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. Canisters and related suction and fluid disposable products are exempt and do not require FDA approval. Our management believes that our technology will (a) significantly reduce the risk of healthcare worker exposure to these infectious fluids, (b) reduce the cost per procedure for handling these fluids, and (c) enhance the surgical team's ability to collect data to accurately assess the patient's status during and after procedures.

In addition to the traditional canister method of waste fluid disposal, several new medical devices have been developed which address the deficiencies described above. MD Technologies, Inc., DeRoyal (formerly Waterstone), Dornoch Medical Systems, Inc., Stryker Instruments, and Cardinal Health, Inc. have all developed systems that provide for disposal into the sanitary sewer without pouring the infectious fluids directly through a hopper disposal or using expensive gel powders and are all currently sold with 510(K) concurrence from the FDA. Most of them continue to utilize some variant on the existing canister technology, and while not directly addressing the canister, most have been successful in eliminating the need for expensive gel and its associated handling and disposal costs.

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. Information obtained by the Company from surgical clinicians during interviews indicates that Stryker Instruments has the dominant market share position. Cardinal Health, Inc., though having FDA concurrence, has not yet made significant sales into the market place. These clinicians have also indicated that the competitive devices are used in select procedures and often in some, but not all, surgical rooms.

Products

The Fluid Management System ("FMS")

The BioDrain 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 replaces 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. Near the end of each procedure, a proprietary cleaning fluid is attached to the FMS and an automatic cleaning cycle ensues, making the FMS ready for the next procedure. The 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. 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 in minimal.

It is in the facilities that still use manual processes that our product can provide the greatest cost savings and improve safety. In cases where healthcare organizations re-use canisters, the FMS cleaning process eliminates the need for cleaning of canisters for re-use. The FMS greatly reduces the safety issues facing operating room nurses, the cost of the handling process, and the amount of infectious waste generated. The FMS is uniquely positioned to dominate its market segment due to its simple design, ease of use and efficiency in removal of infectious waste with minimal exposure of operating room personnel to potentially infectious material.

Contrary to competitive products, the wall-mounted FMS does not take up any operating room floor space and it does not require the use of any external canisters or handling by operating room personnel. It does require a dedicated system in each operating room where it is to be used. With the exception of MD Technologies, Inc., the BioDrain FMS will be the only known system that is wall mounted and designed to collect, measure and dispose of, surgical waste. 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, are after the case, and use canisters, which still require processing or require a secondary device (such as a docking station) used to dispose of the fluid in the sanitary sewer after it has been collected. 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
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 wooden 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. Information resulting from the Company's consultation with several architects has indicated 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. Labor is estimated at an average of 6 hours but will vary depending on the actual drain and suction systems already resident in the hospital.

Once installed, the FMS has one inflow port positioned on the front of the device that effectively replaces the current wall suction ports most commonly used to remove fluids during surgery. Additionally, a disposable external manifold, which will be provided as part of our disposable cleaning kit, allows for expansion to up to three inflow suction ports.

Although the BioDrain 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 for the system may outweigh the expected savings and/or lengthen the expected return on investment time.

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

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

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

We anticipate the filing of a 510(K) submission shortly. It is anticipated that the unit will be classified as a Class II device by the FDA. While there is always risk in dealing with the FDA and obtaining product approvals, we have retained regulatory and product testing consultants and we have established timeframes and plans for the regulatory process and we anticipate a fairly standard FDA approval process. The two independent FDA consultants we have retained have extensive knowledge and experience in filing 510(K) submissions. Additionally, we have contracted with a third party firm whose sole business is performing independent reviews of 510(K) submissions under the FDA Accredited Person Program. The independent testing firms are currently conducting the necessary system testing and documentation required for the FDA submission.

A summary of the features of the wall unit include:

- Minimal Human Interaction. The wall-mounted FMS provides for a small internal reservoir that keeps surgical waste isolated from medical personnel and disposes the medical waste directly into the hospital sanitary sewer with minimal medical personnel interaction. This minimal interaction is facilitated by the automated electronic controls and computerized LCD touch-screen allowing for simple and safe single touch operation of the FMS.

- Minimizes Exposure. The FMS minimizes surgical team and cleaning crew exposure to bloodborne pathogens, as the system is hands-free and fully automated with electronic controls with regards to handling any waste fluid. The FMS is unique and provides advanced fluid management technology in that it eliminates the use of canisters for fluid collection, is directly connected to the hospital sanitary sewer and provides continuous flow of waste fluids from the operative field.

- Fluid Measurement. The FMS volume measurement allows for in-process, accurate measurement of blood/saline suctioned during the operative procedure, and eliminates much of the estimation of fluid loss currently practiced in the operating room. This will be particularly important in minimally invasive surgical procedures, where accounting for all fluids, including saline added for the procedure, is vital to the operation. The surgical team can view in real time the color of the extracted or evacuated fluid through the viewing window on the FMS.

- Disposable Cleaning Kit . A single-use, disposable cleaning kit that is used 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 a BioDrain proprietary cleaning fluid for cleaning the internal tubing, pathways and chamber within the FMS unit and a disposable external manifold 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 manifold will be supplied with each bottle of cleaning fluid, attached to the bottle for user convenience in securing all consumables needed 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 cleaning fluid should be a substantial revenue generator for the life of the FMS.

- Ease of Use. The FMS simply connects to the existing suction tubing from the operative field (causing no change to the current operative methods). Pressing the *START* button on the FMS touch screen causes the suction tip to operate similarly to preexisting systems, thereby requiring virtually no learning curve for operation at the surgical site.

- Installation. BioDrain will arrange installation of the FMS products through a partnership or group of partnerships. Such partnerships will include but not be limited to being executed with distribution partners, manufacturer's representatives, hospital supply companies and the like. We will train our partners and standardize the procedure to ensure the seamless installation of our products. The FMS is designed for minimal interruption of operating room and surgical room utilization. Plug-and-play features of the design allow for almost immediate connection and hook up to hospital utilities for wall-hung units allowing for quick start-up post installation.

- Sales Channel Partners. The FMS will be sold to end-users through a combination of independent stocking distributors, manufacturers representatives and, possibly later, direct sales personnel. All personnel involved in direct contact with the end-user will have extensive training and will be approved by BioDrain. Exclusive agreements will be in place between BioDrain and the sales channel partners outlining stocking expectations, sales objectives, target accounts, and the like. Contractual agreements with the sales channel partners will be reviewed on an annual basis and could possibly be terminated at any time by BioDrain based on certain specified conditions.

- Competitive Pricing. Estimated end-user pricing is expected to be in the range of $12,000 - $15,000 list per system (one per operating room - installation extra) and $15 - $20 per unit retail for the proprietary cleaning kit to the U.S. hospital market. The distributor or channel partner then sets the final retail price based on quantity discounts for multiple installations.

Patents and Intellectual Properties

We were granted a European patent on April 4, 2007 (Patent No. EP1539580) and a U.S. patent on December 30, 2008 (U.S. Patent No. 7,469,727) (collectively, the “Patents”). 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.

We recently 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 a corporation wholly owned by Mr. Ryan, Mid-State Stainless, Inc., an additional $100,000 payment on June 30, 2009 for past research and development activities. We also granted Mr. Ryan 150,000 warrants to purchase shares of our common stock at a price of $.35 per share. The warrant has a term of five years, ending on June 30, 2013. Should there be a change in control of the Company, we will pay Mr. Ryan a total of $2 million to be paid out over the life of the U.S. patent if the change in control occurs within 12 months of the first sale of any products, or $1 million to be paid out over the life of the U.S. patent if the change in control occurs between 12 and 24 months of the first sale of any products, or $500,000 to be paid out over the life of the U.S. patent if the change in control occurs between 24 and 36 months of the first sale of any product, which has not yet occurred.

Our competitive advantage, if any, 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.

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 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 office has not yet examined the Canadian national stage application (which will be amended consistent with the U.S. and European patents to claim only the Ryan Embodiment).

We filed a divisional application with the U.S. Patent Office with claims directed to the method of use of the Ryan Embodiment. We anticipate that we will file a Continuation-In-Part (CIP) application to cover additional features and functionalities of our FMS. We anticipate filing the CIP with the U.S. Patent Office approximately by the end of the first quarter of 2009.

We have had no communications 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 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.

The Company's 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 are currently working on finalizing an exclusive distribution agreement with a manufacturer of the fluid we will use in the cleaning kit to be utilized with our FMS. While we expect that any agreement with a manufacturer of the fluid will allow use of the fluid in connection with our devices, we do not expect to acquire ownership of any patent rights or claims pertaining to such fluid.

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

The Disposable Cleaning Kit

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

The BioDrain proprietary cleaning fluid is a critical component of our business model. The cleaning fluid has the "razor blade business model" characteristic with an annuity-type of revenue situation for every FMS unit installed, and revenues from the sale of fluids are forecast to be significantly higher than the revenues from the unit. We will encourage that only our fluid will be utilized following procedures by incorporating a special adapter to connect the fluid to the 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 fluids to be utilized in this process, we believe that the special adapter and the warranty control will allow us to achieve substantial revenue from our cleaning fluid.

The instructions for use which 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 more than one of this type of company and we are now in the process of selecting the best company(s) to partner with regarding 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

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

Our strategy will be to:

- *Develop a complete line of wall-installed fluid evacuation systems ("FMS") for use in hospitals and free standing surgery centers as well as clinics and physicians' offices.* Initially, we have developed the FMS to work in hospital operating rooms and surgical centers. This device was developed for use with the wall vacuum suction currently installed in hospitals. Opportunities for future products include an FMS developed for post-operation and recovery rooms with multiple inlet ports and multiple volume measurements.

- *Provide products that greatly reduce worker and patient exposure to harmful materials present in infectious fluids and that contribute to an adverse working environment.* By efficiently removing infectious fluid waste the FMS protects healthcare workers from contact with potential contamination as compared to manual disposal processes. As one of the only stand-alone surgical fluid disposal systems directly connected to the sanitary sewer, the FMS will redefine the manner in which such material is collected, measured and disposed of in operating rooms, post-operating recovery, emergency rooms and intensive care settings. The cost of such exposures, measured in terms of human suffering, disease management costs, lost productivity, liability or litigation, will be, when properly leveraged, the strongest motivating factor for facilities looking at investing in the FMS line of products.

- *Utilize existing medical products independent distributors and manufacturers representatives to achieve the desired market penetration.* Contacts have been established with several existing medical products distributors and manufacturers representatives and interest has been generated regarding the sales of the BioDrain FMS and cleaning kits. In addition to their normal sales practices, the distributors will carry a significant supply of cleaning kits for their current customers and could purchase an FMS for demonstration to new potential customers.

- *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.

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

Other strategies may include:

- 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 purchasing alternatives.

- Providing service contracts to establish an additional revenue stream.

- Utilizing management team contacts in global sourcing of key sub-assemblies to drive significant per unit cost reduction at volume.

- Offering an innovative warranty program that is contingent on the exclusive use of our disposable cleaning kit to insure the success of our after-market disposable products.

Technology and Competition

Fluid Management for Surgical Procedures

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

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

- *Direct Disposal Through the Sanitary Sewer.* In virtually all municipalities, the disposal of liquid blood may be done directly to the sanitary sewer where it is treated by the local waste management facility. This practice is approved and recommended by the EPA. In most cases these municipalities specifically request that disposed bio-materials not be treated with any known anti-bacterial agents such as 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 biohazardous/infectious waste generated by the hospital (red-bagged).

- *Conversion to Gel for Red-Bag Disposal*. In many hospital systems the handling of this liquid waste has become a liability issue due to worker exposure incidents and in some cases has even been a point of contention during nurse contract negotiations. Industry has responded to concerns of nurses over splash and spillage contamination by developing a powder that, when added to the fluid in the canisters, produces a viscous, gel-like substance that can be handled more safely. After the case is completed and final blood loss is calculated, a port on the top of each canister is opened and the powder is poured into it. It takes several minutes for the gel to form, after which the canisters are placed on a service cart and removed to the red-bag disposal area for disposal with the other infectious waste. There are four major drawbacks to this system:

    - 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 approximately one pound. A canister and its gelled contents weigh approximately 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 the deficiencies described above. MD Technologies, Inc., DeRoyal (formerly Waterstone), Dornoch Medical Systems, Inc., Stryker Instruments, and Cardinal Health, Inc. have all developed systems that provide for disposal into the sanitary sewer without pouring the infectious fluids directly through a hopper disposal or using expensive gel powders and are all currently sold with 510(K) concurrence from the FDA. Most of them continue to utilize some variant on the existing canister technology, and while not directly addressing the canister, most have been successful in eliminating the need for expensive gel and its associated handling and disposal costs.

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. Information the Company obtained from surgical clinicians during interviews indicate that Stryker Instruments has the dominant market share position. Cardinal Health, Inc., though having FDA concurrence, has not yet made significant sales into the market place. These clinicians have also indicated that the competitive devices are used in select procedures and often in some, but not all, surgical rooms.

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 that BioDrain. 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.

Solidifying Gel Powder

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

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

Sterilization and Landfill Disposal

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

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

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

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

Handling Costs

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

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

Nursing Labor

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

Our FMS products would save nursing time 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 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 "Neptune" system, offering a combination of bio-aerosol and fluid management in a portable two piece system; Waterstone Medical (now DeRoyal) introduced the "Aqua Box" stationary system for fluid disposal; and Dornoch Medical Systems, Inc. introduced the "Red Away" stationary system for fluid collection and disposal. All companies, regardless of size, have their own accessory kits. For purposes of comparison, based on information obtained from a surgical center in Minnesota, the Stryker Neptune system's estimated cost per procedure is more than $15 (including single-use-manifold plus cleaning solution).

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. It may require the need to transport the mobile unit to a docking port and then empty the fluid or it may be that the canister is still 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 on page 39 for a comparison of the key features of the devices currently marketed vs. the FMS.

Marketing and Sales

Distribution

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

The major focus of the marketing effort will be to introduce our product 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 to bloodborne pathogens by medical personnel. It is believed that our technology provides a convenient and cost effective way to collect and dispose of this highly contaminated material.

Distributors will either have installation and service capability, or we will contract those functions out to an independent service/maintenance company. We have been in contact with both distributors, and service companies regarding these installation requirements. The Company will establish extensive training and standards for the service and installation of the FMS to ensure consistency and dependability in the field. 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 trouble shooting 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. The cost and price estimates currently in place with the Company conservatively allow for reasonable profit margins for all entities in the FMS and the cleaning fluid supply chain. While we have had discussions with related companies, there are no installation or service companies contracted or trained to install our fluid management system at this time.

Promotion

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

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

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

Pricing

Prices for the FMS and its disposable cleaning kit will reflect a cost saving to the hospital compared to its current procedure costs over time. This strategy should ensure that sales objectives will be addressed in actual hard cost comparisons rather than by addressing soft costs such as warehouse and operating room space wasted storing canisters, inventory cost, ordering cycles, worker's comp exposure - all debatable arguments fraught with defendable positions from the customer's knowledge base. Our focus will be on the hard costs of canisters, 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. An argument could be made that our system produces waste through the disposable cleaning solution bottle. However, our cleaning solution's bottle is completely recyclable, and the anticipated selling price of the fluid is built into our cost analysis. In comparison, 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, p.44). 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 with the rest of the facility's plastics or, less desirably, they can be thrown in the regular trash.

The FMS will list for approximately $12,000 - $15,000 per system (one per operating room - installation extra) and $15 - $20 per unit retail for the proprietary cleaning kit to the U.S. hospital market. By comparison, the disposal system of Stryker Instruments, one of our competitors, retails for $10,000 plus a $9,000 docking station and requires a disposable component with an approximate cost of $15 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 included in the current disposal expenses.

Installation will be done by distributors, independent contractors, or in the case of larger facilities by in-house engineering at an estimated price of $2,000, depending on the operating room. Installation of the FMS requires access only to the hospital's sanitary sewer, vacuum suction, and electricity. 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, larger institutions have their own installation and maintenance workforce. Installation time should not seriously impact the use of the operating room. Each FMS will have an industry standard warranty period that can be extended through documented use of the Company's sterilization kit.

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

Engineering and Manufacturing

We have recently finalized our relationship with TriVirix, Inc. for the engineering and manufacturing of our product, FMS, which refers to the FMS device itself and not the cleaning fluid, cleaning fluid packaging, external manifold or any other accessories. TriVirix, Inc. is ISO 13485:2003 and GMP-certified and has the necessary expertise and experience to build our product in a cost-effective manner. We are currently in negotiations with TriVirix, Inc. to finalize our Manufacturing Supply Agreement, which we expect to be executed by the end of January 2009. The Manufacturing Supply Agreement will specify the quantities for production of our product, which will be based on a 6-month rolling forecast, the allocation of production and the price and price increase terms. Under the terms of the Manufacturing Supply Agreement, TriVirix, Inc. would manufacture only our FMS device. Upon execution of the Manufacturing Supply Agreement, Trivirix, Inc. would be considered a primary supplier of the FMS device. Our management, as part of a broader manufacturing sourcing strategy plans to identify at most two second sources of production for the FMS device.

The disposable cleaning kit, comprised of a proprietary cleaning solution, a cleaning solution package (high density polyethylene bottle), a cleaning solution adapter assembly (barbed bottle cap, attached surgical tubing, and attached valved quick coupling), and a multi-port external, non-sterile manifold, will be sourced through alternative suppliers segregated as primary and secondary suppliers. Other single use disposable accessories, such as a fluid sampling system, will be sourced separately, as individual components. We have not yet entered into agreements with any suppliers for these products.

To further our manufacturing sourcing strategy, we recently hired an Executive Vice President of Operations, Chad Ruwe, who has 20 years of fluid management systems experience and a demonstrated history of driving lean manufacturing global sourcing and joint venture leadership.

Government Regulation

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

These agencies include:

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

Application for Electrical Safety Testing and Certification

We are seeking testing and certification to the IEC 60606-1 and IEC 60606-1-2, two internationally recognized standards. In the United States there are three 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 our FMS device. We issued request for quotes to two of three of these 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. We delivered one FMS device to TUV SUD America, Inc. on December 18, 2008 to commence testing. Expected completion of the testing and associated final documentation of the testing results is scheduled for January 31, 2009.

In addition to delivering the FMS device, we have provided various documents to TUV SUD America, Inc., including a critical components list, electrical schematics, 3D CAD model drawings of selected components, dimension drawings of selected components, engineered drawings of labels, an operations manual containing instructions for use, a bill of materials, and related electrical documents describing critical components of the BioDrain FMS.

Based on our product design advancements, we expect to have successful test results and secure the electrical safety approval mark from TUV SUD America, Inc. We may experience some unexpected hurdles but expect any that might arise can be responded to quickly. The BioDrain FMS undergoing electrical testing operates entirely on 24VDC. This low voltage system poses considerable less risk to a 110/240 VAC powered system. This being the case, we expect successful testing.

Consequences and risks of not passing the electrical safety testing on the first attempt include (i) a delay in submitting the 510(k) to the FDA and thus a longer lead-time to market entry, which could result in competitors having more time in the market to further execute their strategies; (ii) increased design costs to redesign the system; and (iii) subsequent increased costs to re-submit for a second attempt at electrical safety testing.

A previous generation BioDrain FMS device (110/240VAC) successfully passed electrical safety testing conducted by UL in November 2005 (reference UL File E256928). This UL approval can be directly accessed on the web at the following link: http://database.ul.com/cgi-bin/XYV/cgifind.new/LISEXT/1FRAME/srchres.html.

After we secure electrical safety testing approval for the FMS, we plan to file a 510(K) submission for FDA approval of the FMS. The FDA requires, pursuant to a final regulation for Establishment Registration and Device Listing for Manufacturers of Devices (21 CFR Part 807), 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 (as defined below). We anticipate that this will be a Class II device, which is less stringently reviewed as that of a Class III device. We have teamed with regulatory consultants with significant experience in the FDA approval process. While each submission and approval is different, our regulatory consultants have advised that this is a fairly standard type of FDA 510(K) submission, with a high probability of approval by the FDA.

The 510(k) Submittal Process

Upon successful completion of the electrical safety testing at TUV SUD America, Inc. and assuming there is no delay in conducting and concluding this testing, the 510(k) submittal process is as follows:

1. Our contracted FDA consultant will compile the following documents:
    a. Electrical safety testing report and conclusions from TUV SUD America, Inc.,
    b. Risk and hazard analysis documentation,
    c. BioDrain FMS product labeling such as the instructions for use, preventative, maintenance schedules, troubleshooting guidelines,
    d. Documentation regarding the proprietary cleaning fluid and the labeling and instructions for use related to the use of the proprietary cleaning fluid,
    e. Software and hardware design inputs and outputs including requirements related specifications and documents, and
    f. Other documentation the FDA deems necessary.
2. Upon compiling these documents, a 510(k) Submittal Document will be drafted in the format instructed by the FDA. This entire package, upon completion by the BioDrain FDA consultant and approval by BioDrain management, will be submitted to a contracted third party 510(k) reviewer, Mark Job of Regulatory Technical Services.
3. Mr. Job will review the BioDrain submittal and a question and answer iteration will take place between us and Regulatory Technical Services until he is satisfied with the BioDrain submittal. Once satisfied, Mr. Job will submit the BioDrain 510(k) Submittal Document and all necessary, related documentation directly to the FDA.
4. The FDA has thirty days to review and respond to the BioDrain 510(k) Submittal. Similarly, a question and answer iteration may take place between the FDA and Mr. Job or Regulatory Technical Services regarding the submittal. BioDrain, at the request and as needed by Mr. Jobor Regulatory Technical Services, will take all necessary steps and actions to provide the answers to any and all FDA inquires specific to the 510(k) submittal.
5. Upon successfully addressing the FDA's questions, BioDrain can expect to receive FDA 510(k) clearance for the FMS device.

The products we expect to be covered by this 510(k) application or submittal are (1) the BioDrain FMS device both in the on-the-wall and in-the-wall formats, and (2) the proprietary cleaning solution kit including the cleaning solution, the bottle or container for the fluid and the associated cleaning fluid adapter.

FDA Process for Clearing a Device 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 (or "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 substantially equivalent 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, etc.); (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. Premarket notification submissions are designed to facilitate these determinations.

The timing to complete the 510(K) process varies with each submission, however we anticipate that the product could receive FDA approval a few months after the submission is filed. However, there is no assurance that FDA approval will be obtained.

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

The Code of Federal Regulations (CFR) Title 21 - Food and Drugs contain the most recent FDA statutory and regulatory requirements for medical devices. The relevant regulations start with Part 800 and encompass an extensive listing of FDA regulatory requirements, such as product classification/registration, establishment registration, labeling, etc., placed on a medical device manufacturer in the U.S. Please visit the following website for further information: (http://www.accessdata.fda.gov/scripts/cdrh/cfdocs/cfcfr/cfrsearch.cfm).

In July 2007, we entered into a restructuring agreement whereby in the event that we fail to obtain FDA approval by the end of August 2009, the majority-in-interest of investors (“the Investors”) through our October 2008 offering would have the right to cause the Company to make the following restructuring changes:

1. All Company assets will be distributed to a wholly-owned subsidiary (“Privco”). Privco will have the identical number of common shares outstanding as the Company. The Investors will have the same percentage ownership of Privco that they had in the Company and will maintain their shares of Company common stock.

2. BioDrain Original Shareholders (the “Founders”) will cancel all Company stock held by the Founders only and the Founders will no longer own any Company equity. Ownership of shares of the Company’s common stock by the Investors would not be affected.

3. In consideration of such cancellation, the Founders will receive Privco stock and options so that the Founders have the same percentage ownership of Privco that it had in the Company. The Company will retain the rest of Privco equity.

4. All Company stock options will be cancelled and replaced with Privco stock options.

5. The Company will have new directors and officers selected by Investors.

6. In the event of a reverse merger or other similar transaction with a new operating business, the Company will either spin-off the remaining Privco equity to the remaining Company shareholders or liquidate the Privco securities and distribute any net proceeds to the Company shareholders.

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

These potential restructuring changes were put in place in the October 2008 financing to reduce the risk of not obtaining FDA approval for those Investors involved in that financing. We were able to attract more investors for that financing by providing the Investors with the restructuring agreement, which provides them with additional potential value (ownership of a public entity) should we not achieve FDA approval by the end of August 2009. The potential impact on our business could be to cause our operations to cease. The financial statements of the Company would show no value; rather all assets would be in Privco, the new entity. Operations could be continued from Privco, however, the Investors would have the option to liquidate our assets and distribute the proceeds to our shareholders if a reverse merger or similar transaction took place.

Following such a transaction, there would be no distinction between the "Founders" and the "Investors" and the terms of the restructuring agreement would no longer exist. The difference between the two groups would be that the Investors would own and control all of the Company's common stock and would also own the same percentage of Privco that they did in the Company before the transaction, and the Founders would only own Privco stock. The Founders, as shareholders of Privco, would be entitled to vote on any asset sale or reverse merger or similar transaction of Privco only. At this time, there is no reverse merger or other similar transaction being negotiated or considered by us. By placing sole ownership of the Company in the hands of the Investors, the restructuring agreement gives them flexibility of utilizing a public company shell for other business opportunities as well as keeping their same ownership in Privco with the ability to operate the entity or dispose of assets in connection with a shareholder vote.

The following tables identify each of the Investors and the Founders and the number and percentage of the Company's common stock held by each:

Investors

Name	Number of Shares	Percentage of Common Stock Outstanding
Investors:		
Caron Partners LP	246,500	3.0%
Marc I. Abrams	28,571	0.3%
Douglas Gold	203,571	2.5%
Stuart A. Liner	71,429	0.9%
Steven M & Sheila A. Gold	71,429	0.9%
Tangiers Investors, L.P.	142,857	1.7%
MLPF&S: Jerome Cowan	71,429	0.9%
Jeremy Roll	28,572	0.3%
Bernard & Twyla Vosika	71,429	0.9%
Sally & Naomi Maslon JTWROS	28,571	0.3%
Michael Sobeck	14,286	0.2%
Cavalier Consulting Corp.	71,429	0.9%
RP Capital	183,991	2.2%
Brian Weitman	42,599	0.5%
Bellajule Partners LP	102,429	1.3%
Morris Esquenazi	100,000	1.2%
Schwartz Holding	500,000	6.1%
Jack & Thelma Farbman	100,000	1.2%
Morrie R. Rubin	50,000	0.6%
Lee M. Terpstra & Orlando Stephenson	100,000	1.2%

Investors

Name	Number of Shares	Percentage of Common Stock Outstanding
Bernard Puder Revocable Trust	430,000	5.3%
Thomas J. Klas	71,429	0.9%
Chad Ruwe	571,429	7.0%
Peter Abramowicz	57,143	0.7%
Scott R. Storick	100,000	1.2%
James Dauwalter Living Trust	571,429	7.0%
CGMI as IRA Custodian FBO John D. Villas	71,429	0.9%
Stan Geyer Living Trust	71,429	0.9%
Jimmy Taylor, IV	571,429	7.0%
Gregory B, Graves	42,857	0.5%
Fenton Fitzpatrick	8,571	0.1%
Peter Persad	71,429	0.9%
Thomas M. Pronesti	55,964	0.7%
Craig Kulman	38,821	0.5%
Kulman IR LLC	125,000	1.5%
Cross Street Partners, Inc.	125,000	1.5%
Namaste Financial, Inc.	125,000	1.5%
Ryan Hong	57,404	0.7%
Richardson & Patel LLP	60,714	0.7%
Sean Fitzpatrick	150,000	1.8%
David Baker	225,000	2.8%
Si Phillips	50,000	0.6%
Cameron Broumand	35,000	0.4%
Sylvia Karayan	11,646	0.1%
Jason Cavalier	15,000	0.2%
Greg Suess	104,114	1.3%
Ben Padnos	100,000	1.2%
Nimish Patel	412,411	5.0%
Erick Richardson	399,543	4.9%
Mark Abdou	32,907	0.4%
Addison Adams	8,227	0.1%
Michael Cavalier	8,227	0.1%
Mick Cavalier	8,227	0.1%
Francis Chen	2,334	0.0%
Doug Croxall	6,170	0.1%
Jennifer & Michael Donahue	28,009	0.3%
Egavnit LLC	13,710	0.2%
Dan Estrin	823	0.0%
Kevin Friedmann	1,440	0.0%
Abdul Ladha	4,114	0.1%
Jody Samuels	8,227	0.1%
Yossi Stern	10,284	0.1%
Steve Yakubov	10,284	0.1%
Total	7,101,266	86.8%

Founders

Name	Number of Shares	Percentage of Common Stock Outstanding
Lawrence W. Gadbaw	139,163	1.7%
Peter L. Morawetz	107,739	1.3%
Gerald D. Rice	85,293	1.0%
Jay D. Nord	102,335	1.3%
Sophia M. Nord, Trust	29,927	0.4%
Emily A. Nord, Trust	29,927	0.4%
Jeffrey K. Drogue	53,869	0.7%
Jonathon N. Drogue, Trust	29,927	0.4%
Samantha N. Drogue, Trust	29,927	0.4%
Staci M. Lauer (Spade)	35,913	0.4%
Wisconsin Rural Enterprise	37,709	0.5%
Richard E. & Carol A. Thurk	5,985	0.1%
Thomas W. Gadbaw	599	0.0%
Gail C. & Ginger L. Smith	2,993	0.0%
Charles W. Gadbaw	299	0.0%
Judith A. Bright	1,496	0.0%
Marshall C. Ryan	71,906	0.9%
Alice I. North	399	0.0%
Arliss A. Gadbaw	400	0.0%
Gaynelle A. Templin	399	0.0%
Kevin R. Davidson	29,927	0.4%
Mark K. Lawlis	9,577	0.1%
Wisconsin Business Innovation Corporation	2,993	0.0%
Andcor Companies, Inc.	128,571	1.6%
Wisconsin Rural Enterprise Fund	142,291	1.7%
Total	1,079,566	13.2%

Employees

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

Legal Proceedings

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

Description of Property

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

Directors, Executive Officers, Promoters and Control Persons

The following table identifies our current executive officers and directors.

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

We have not set a term of office for any of our directors and each director will serve until their successors are elected and have duly qualified.

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

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

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

Business Experience

Lawrence W. Gadbaw, Chairman of the Board of Directors. Mr. Gadbaw has served as a director since our inception in 2002. He served as our President and Chief Executive Officer from 2002 to 2006 and Executive Vice President Business Development from 2006 to 2008. Mr. Gadbaw has also been Chairman of Health Care Marketing, Inc., a manufacturer and marketer of health care products, since 1992. From 1990 to 1992, he was President, Chief Operating Officer and Director of Augustine Medical, Inc., a manufacturer of hypothermia treatment products. Mr. Gadbaw was President, Chief Executive Officer, Treasurer and Director of Bio-Vascular, Inc., a manufacturer of tissue and biosynthetic-based medical devices and grafts for cardiovascular surgery, from 1985 to 1989. From 1979 to 1981, he was Director of Sales and Marketing for Medical Incorporated, a manufacturer of cardiovascular products. Mr. Gadbaw was General Manager of Sween Corporation, a manufacturer of health care products, from 1977 to 1979. He held numerous positions in marketing and sales with Medtronic, Inc., a manufacturer and distributor of cardiovascular products from 1967 to 1977, including the position of Director of U.S. Sales.

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

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

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

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

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

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

Medical Advisory Board

We have set up a Medical Advisory Board to assist us in understanding the needs of our market and ways to better serve that market. From time to time our executive management may elect to change the composition of the Medical Advisory Board, including but not limited to, expanding the size of the Medical Advisory Board.

Dr. Arnold S. Leonard, MD, PhD. Dr. Leonard, an outstanding Minnesota-born and world-wide medical pioneer, has been a surgeon specializing in orthopedic anterior spine approaches and pediatric surgery from 1956 to 2006. He has distinguished himself in a great number of areas too numerous to detail: University of Minnesota (UM) 1956-2004 where he was a Professor of Surgery and Chair in Pediatric Surgery; membership in 13 medical societies; receiver of many special honors and awards including The Wangensteen Distinguished Professor Award for Excellence in Teaching; member of several hospital and national medical committees; lecturer and author of over 250 abstracts, publications and presentations. He has also performed several research projects in the treatment of cancer using genetic engineering to boost the immune system. The Arnold S. Leonard, M.D., Ph.D. Chair in Pediatric Surgery was awarded to Dr. Leonard by the University of Minnesota as an endowed scholar, alongside two other distinguished Minnesota physicians, Dr. C. Walton Lillihei, MD, PhD, and Dr. Owen H. Wangensteen, MD, PhD.

David Feroe. Mr. Feroe is a practicing nurse anesthetist at Fairview University Hospital and also has a private consulting practice. He previously served as a clinical research executive with Augustine Medical, Inc. while in practice at Fairview University Hospital. He was instrumental in gaining medical facility acceptance of Augustine's innovative patient warming devices.

Debbie Heitzman, RN. Ms. Heitzman, a healthcare planning consultant with Strategic Hospital Resources, has more than 25 years of international experience as a consultant in clinical architecture and design, medical equipment planning, clinical consulting and nursing. Ms. Heitzman is a member of the educational faculty of Harvard Graduate School of Design Professional Development Program. She formed Strategic Hospital Resources in 2003 and is a principal in that firm. In the course of her Practice, she is called upon to assist medical facilities in designing and planning equipment for operating rooms.

Mary Wells Gorman, RN, CID. Ms. Gorman, a healthcare planning consultant with Gorman Resources Ltd., has 14 years of nursing practice and 15 years of healthcare architectural projects with her own consulting firm. Like Ms. Heitzman, Ms. Gorman works with healthcare clients in facility programming and planning. She is an advocate for healthcare administrative policy change and was instrumental in changing the Minnesota Health Department's guidelines for inpatient care so that healing environments are more firmly integrated into inpatient practice.

There are no family relationships between any of the members of the Medical Advisory Board and any of our directors or executive officers nor any arrangement or understanding with any of our directors or executive officers pursuant to which any of the Medical Advisory Board members was selected.

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

Other than the warrant agreements described below, there are no agreements between the Company and any of the members of the Medical Advisory Board.

In 2005, we issued warrants to purchase 2,993 shares of our common stock at $1.67 per share to each of Debbie Heitzman, Mary Wells Gorman and David Feroe for their services on the Medical Advisory Board.

In 2006, we issued warrants to purchase 35,913 shares of our common stock at $.02 per share to Dr. Arnold Leonard for his services on the Medical Advisory Board. The warrants contain an anti-dilution provision that provides that such shares would double upon the Company’s total outstanding shares reaching 2 million. The second 35,913 shares of our common stock were granted to Mr. Leonard in June 2008 when we achieved the 2 million in outstanding shares of common stock through the October 2008 financing.

In addition, three individuals, Karen Ventura, Nancy Kolb and Kim Shelquist, provided the Company with sales and marketing advisory services in 2006. In consideration for their services, we granted each of them warrants to purchase 2,993 shares of our common stock at $1.67 per share.

Executive Compensation

Summary of Compensation

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

Summary Compensation Table

Name and principal position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compen-sation ($)	Nonquali-fied Deferred Compen-sation Earnings ($)	All Other Compen-sation ($)	Total ($)
Kevin R. Davidson, President and Chief Executive Officer	2007	150,000	23,000						173,000(1)
Gerald D. Rice, Chief Financial Officer and Secretary	2007	110,000	46,000						156,000(2)

(1) In 2007, although Mr. Davidson was entitled to $150,000 in base salary under his employment agreement, he received $59,375 in base salary, which is less than he was entitled to, due to lack of funds by the Company. In December 2007, upon request from our funding brokers, we reduced accrued payroll liabilities by a total of $346,714 through November 2007 (of which Mr. Davidson had waived compensation in the aggregate amount of $70,000). In exchange therefor, Mr. Davidson was granted a one-time cash bonus of $23,000 as well as options to purchase 80,000 shares of common stock at $.35 per share. The shares will vest and the bonus will be paid when the Company raises an additional $3 million of funding subsequent to the financing completed in October 2008. To date there has been no stock issuance from this grant. No compensation expense has been computed for financial statement reporting purposes for the options granted to Mr. Davidson because no vesting of the options have occurred since vesting is contingent upon the Company raising $3 million.

(2) In 2007, although Mr. Rice was entitled to $110,000 in base salary under his employment agreement, he received $43,542 in base salary, which is less than he was entitled to, due to lack of funds by the Company. In December 2007, upon request from our funding brokers, we reduced accrued payroll liabilities by $346,714 through November 2007 (of which Mr. Rice had waived compensation in the aggregate amount of $125,000). In exchange therefor, Mr. Rice was granted a one-time cash bonus of $46,000 as well as options to purchase 160,000 shares of common stock at $.35 per share. The shares will vest and the bonus will be paid when we raise an additional $3 million of funding subsequent to the financing completed in October 2008. To date there has been no stock issuance from this grant. No compensation expense has been computed for financial statement reporting purposes for the options granted to Mr. Rice because no vesting of the options have occurred since vesting is contingent upon the Company raising $3 million.

Outstanding Equity Awards at Fiscal Year-End

The table below provides information concerning unexercised options that has not yet vested for our President and Chief Executive Officer and our Chief Financial Officer and Secretary outstanding as of December 31, 2007. To date, there have been no stock issuances from these option grants.

Outstanding Equity Awards at Fiscal Year-End Table

	Option awards					Stock awards			
Name	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Equity incentive plan awards: Number of securities underlying unexercised unearned options (#)	Option exercise price ($)	Option expiration date	Number of shares or units of stock that have not vested (#)	Market value of shares of units of stock that have not vested ($)	Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested (#)	Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Kevin R. Davidson, President and Chief Executive Officer	-	80,000(1)	-	$ .35	12/31/13	-	-	-	-
Gerald D. Rice, Chief Financial Officer and Secretary	-	160,000(1)	-	$ .35	12/31/13	-	-	-	-

(1) Vesting of these stock options is contingent upon the Company achieving $3 million in total investment funding.

Discussion of Compensation

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

The amounts reflected in the descriptions of the employment agreements for Mr. Davidson and Mr. Rice below differ from the amounts disclosed in the Summary Compensation Table because the Company did not pay them their full salaries due to lack of funds.

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

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

We entered into an employment agreement with Kevin R. Davidson, President and Chief Executive Officer, on October 4, 2006. The term of the agreement is four years and is automatically renewable except by action of our board of directors. The agreement provides for an annual base salary of $150,000 (payable beginning when cumulative new funding for the Company reaches $250,000), with an increase to $170,000 upon reaching funding of $1,000,000 and $200,000 upon reaching cumulative net sales of $5,000,000. Mr. Davidson is eligible to participate in the Company's bonus plan when it is completed and approved by our board of directors or compensation committee when established. In addition, pursuant to his employment agreement, Mr. Davidson is entitled to an initial grant of 50,000 shares of BioDrain common stock with an anti-dilution protection amounting to 3.81% of the fully-diluted outstanding common stock of the Company up to the completion of the first $1,000,000 of new funding raised, which pursuant to an option agreement dated June 5, 2008 amending his employment agreement, Mr. Davidson chose to receive in options to purchase 543,292 shares of common stock, exercisable at $.01, in lieu of obtaining the shares to which he was entitled. The options vest immediately, and the term of the options is 10 years from the date of issuance. In 2008, Mr. Davidson achieved the $1 million funding target provided for in his employment agreement and therefore his annual salary was increased to $170,000. In addition, on September 12, 2008, our board of directors ratified the issuance of the 543,292 options to Mr. Davidson as a result of the milestones achieved pursuant to his employment agreement.

In 2007, Mr. Davidson earned $59,375 in base salary, which is less than he was entitled to under his employment agreement, due to lack of funds by the Company. In December 2007, upon request from our funding brokers, we reduced accrued payroll liabilities by a total of $346,714 through November 2007 (of which Mr. Davidson had waived compensation in the aggregate amount of $70,000). In exchange therefor, Mr. Davidson was granted a one-time cash bonus of $23,000 as well as options to purchase 80,000 shares of common stock at $.35 per share. The shares will vest and the bonus will be paid when the Company raises an additional $3 million of funding subsequent to the financing completed in October 2008. To date there has been no stock issuance from this grant.

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

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

In 2007, Mr. Rice earned $43,542 in base salary, which is less than he was entitled to under his employment agreement, due to lack of funds by the Company. In December 2007, upon request from our funding brokers, we reduced accrued payroll liabilities by $346,714 through November 2007 (of which Mr. Rice had waived compensation in the aggregate amount of $125,000). In exchange therefor, Mr. Rice was granted a one-time cash bonus of $46,000 as well as options to purchase 160,000 shares of common stock at $.35 per share. The shares will vest and the bonus will be paid when we raise an additional $3 million of funding subsequent to the financing completed in October 2008. To date there has been no stock issuance from this grant.

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

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

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

a. the continued noncompliance by the Employee with our directors' written instructions, directives or regulations, after fifteen (15) days' written notice of such noncompliance from us; a breach by the Employee of any material term of the employment agreement, which breach is not cured within seven (7) days of written notice thereof from us; unsatisfactory performance of employment duties, obligations and work and production standards that is not corrected within thirty (30) days after written notice of such unsatisfactory performance from us, or such longer period as specified in such notice;

b. malfeasance, misfeasance, or nonfeasance by the Employee in the course of his employment;

c. fraud or a criminal act committed by Employee, provided such criminal act adversely affects our business;

d. any breach by Employee of his fiduciary duties and obligations to us or any act or omission of Employee constituting a breach of his obligations contained in the confidentiality and non-competition agreements entered into by and between the Company and the Employee; and

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

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

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

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

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

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

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

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

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

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

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

a. the material noncompliance by Employee with written instructions, directions or regulations of our board of directors applicable to him, the breach of any material term of the agreement, or the unsatisfactory performance of his duties, obligations, work and production standards and the failure of Employee to correct such non-compliance, breach or performance within thirty (30) days after receipt by him of written notice of the same by us;

b. any willful or grossly negligent act by Employee having the effect of materially injuring the Company, as determined by a majority vote of our board of directors (excluding Employee);

c. the commission by Employee of fraud or a criminal act that adversely affects our business; or

d. the determination by an affirmative vote of the majority of our board of directors (excluding Employee), after reasonable and good faith investigation by the Company following a written allegation by another Company employee that he engaged in some for of harassment or other improper conduct prohibited by law, unless such actions were specifically directed by our board.

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

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

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

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

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

In 2008, Mr. Ruwe invested $200,000 and received 571,429 shares of common stock and warrants to purchase to 571,429 shares of common stock at $0.46 per share.

Compensation of Directors

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

Corporate Governance

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

Compliance with Section 16(a) of the Exchange Act

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

Code of Ethics

In November 2008, our board of directors adopted a Code of Ethics which is applicable to all of our officers, directors and employees.

Certain Relationships and Related Transactions

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

In September 2002, an oral agreement was made with director Peter Morawetz whereby he would provide sales, marketing and general administrative support to BioDrain for a fee of $1,770 per month. The Company’s expectation at the time was that the Company would have received equity financing to fund these payments. The Company did not receive that funding. Pursuant to an oral agreement with Mr. Morawetz the Company did not pay these amounts. The fees were accrued through August 2006 and totaled approximately $85,000 but no amount has been paid. Both Mr. Morawetz and BioDrain personnel have discussed reducing the total fees accrued to a lesser amount and, although no agreement has been reached, the parties have reached an oral understanding that the amount to be paid will be less.

In 2007, three of the Company’s directors/executive officers, Lawrence Gadbaw, Gerald Rice and Kevin Davidson, and a former employee that left the Company in April 2006, agreed to waive an aggregate of approximately $346,700 in accrued, unpaid salaries for their services through June 2007 and Mr. Morawetz agreed to waive his consulting fees of $84,963. In December 2007, upon request from the Company’s funding brokers, the Company reduced accrued payroll liabilities by $346,714 through November 2007. This total was approximated from waived compensation from Mr. Davidson in the amount of $70,000, waived compensation from Mr. Rice in the amount of $125,000, waived compensation from Mr. Gadbaw in the amount of $138,541 and waived compensation from an employee who left the Company in April 2006 in the amount of $13,369. In exchange therefor, Mr. Gadbaw and Mr. Rice were each granted options to purchase 160,000 shares of common stock and Mr. Davidson was granted options to purchase 80,000 shares of common stock, all at $.35 per share with vesting contingent upon the Company raising an additional $3 million in financing subsequent to the October 2008 financing. To date there have been no stock issuance from these grants. In addition, Mr. Rice will receive one-time cash bonus of $46,000 and Mr. Davidson will receive one-time cash bonus of $23,000 when the Company raises an additional $3 million subsequent to the October 2008 financing and Mr. Gadbaw is currently receiving $2,000 per month until a total of his one-time cash bonus of $46,000 is paid.

Unpaid salaries from December 2007 through June 2008 were subsequently accrued with the expectation that they would be paid when sufficient funds became available. Accrued salaries for May 2008 and June 2008 were subsequently paid, leaving unpaid accrual of salaries from December 2007 through April 2008.

Pursuant to the terms of the Separation Agreement and Release between Mr. Gadbaw and the Company, if we raise at least $3 million in additional funding prior to fully paying off Mr. Gadbaw’s accrued salary at the rate of $2,000 per month, we will then pay off any remaining balance on the accrued salary within 30 days of receipt of the new funding. As part of the agreement, for as long as Mr. Gadbaw remains Chairman of our board of directors, he will receive an additional 30,000 stock options annually, so long as he is Chairman as of September 1 of that year. These options will be priced based on the fair market value of the Company’s common stock at the time of grant as determined by our board of directors.

Negotiations with Mr. Morawetz have not yet been completed in connection with compensation for foregoing his consulting fee. Mr. Morawetz’s consulting services included contacting potential distributors in Florida where he resides, seeking and meeting with potential investors for our funding efforts and providing general counsel services on various Company issues.

The following selling shareholders beneficially own more than 5% of our common stock: Schwartz Holding, Bernard Puder Revocable Trust, Chad A. Ruwe, James E. Dauwalter Living Trust, James R. Taylor IV and Nimish Patel. All became a related party through investing in the October 2008 funding.

Selling Security Holders

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

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

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

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

The common shares included in this selling security holder table include:

- Shares underlying convertible debenture with certain investors who loaned us $170,000 in July 2007. Such securities are convertible into 620,096 shares and the lenders were also entitled to receive warrants to purchase 620,096 shares at 0.35 per share;

- 4,552,862 common shares and 4,552,862 common shares underlying warrants (at an exercise price per share of $0.46) to 33 investors pursuant to an equity private placement from June 2007 to October 2008 for $0.35 per share for an aggregate of $1.6 million;

- 547,285 common shares and 136,429 warrants to consultants who provided services in connection with such equity private placement; and

- Shares issued pursuant to a binding term sheet with a consultant pursuant to which the consultant would assist us in obtaining bridge financing and subsequent equity financing and the consultant and its assigns received 2,001,119 shares in satisfaction of such obligation.

Name of Selling Shareholder	Number of Shares Owned Before Offering(1)	Number of Shares Underlying Warrants Owned Before Offering	Number of Shares Offered in this Offering(1)	Number of Shares Owned After Offering(2)	Percentage Owned After Offering(2)
Caron Partners LP(3)	246,500	100,000	246,500	0	0
Alan Topchik	200,000	100,000	200,000	0	0
Marc I. Abrams	57,142	28,571	57,142	0	0
Douglas J. Gold (21)	232,142	28,571	232,142	0	0
Stuart A. Liner	142,858	71,429	142,858	0	0
Steven M. Gold and Sheila A. Gold	142,858	71,429	142,858	0	0
Tangiers Investors, L.P.(4)	285,714	142,857	285,714	0	0
Jerome M. Cowan	142,858	71,429	142,858	0	0
Jeremy Roll	68,573	40,001	68,573	0	0
Bernard Vosika and Twyla Vosika	142,858	71,429	142,858	0	0

Name of Selling Shareholder	Number of Shares Owned Before Offering(1)	Number of Shares Underlying Warrants Owned Before Offering	Number of Shares Offered in this Offering(1)	Number of Shares Owned After Offering(2)	Percentage Owned After Offering(2)
Sally Maslon & Naomi Maslon JTWROS	57,142	28,571	57,142	0	0
Michael Sobeck	28,572	14,286	28,572	0	0
Cavalier Consulting Corp.(5)	142,858	71,429	142,858	0	0
RP Capital(6) (21)	326,848	142,857	326,848	0	0
Brian Weitman	64,028	21,429	64,028	0	0
Bellajule Partners LP(7)	173,858	71,429	173,858	0	0
Morris Esquenazi	200,000	100,000	200,000	0	0
Schwartz Holding	1,000,000	500,000	1,000,000	0	0
Jack Farbman and Thelma Farbman	200,000	100,000	200,000	0	0
Morrie R. Rubin	100,000	50,000	100,000	0	0
Lee M. Terpstra and Orlando Stephenson	200,000	100,000	200,000	0	0
Bernard Puder Revocable Trust	860,000	430,000	860,000	0	0
Thomas J. Klas	142,858	71,429	142,858	0	0
Chad A. Ruwe(22)	1,192,858	571,429	1,142,858	50,000(8)	*
Peter Abramowicz	114,286	57,143	114,286	0	0
Scott R. Storick	200,000	100,000	200,000	0	0
James R. Taylor, IV	1,142,858	571,429	1,142,858	0	0
Citigroup Global Markets Inc. as IRA Custodian FBO John D. Villas	142,858	71,429	142,858	0	0
Gregory B. Graves	85,714	42,857	85,714	0	0
James E. Dauwalter Living Trust dated 12/11/01(9)	1,142,858	571,429	1,142,858	0	0
Stan Geyer Living Trust dated 10/15/2001, as amended, Stan Geyer & Beverly Geyer, Trustees(10)	142,858	71,429	142,858	0	0
Fenton Fitzpatrick	17,142	8,571	17,142	0	0
Peter Persad	142,858	71,429	142,858	0	0
Nimish Patel(11) (21)	503,602	45,595	503,602	0	0
Erick Richardson(12) (21)	490,734	45,595	490,734	0	0
Core Fund Management, LP(13)	364,762	182,381	364,762	0	0
James Jensen(14)	364,762	182,381	364,762	0	0
Steve Andress(15)	72,952	36,476	72,952	0	0
Kendall Morrison(16)	72,952	36,476	72,952	0	0
Egavnit LLC(17)	196,092	91,191	196,092	0	0
Thomas Pronesti(23)	55,964		55,964	0	0
Craig Kulman(23)	38,821		38,821	0	0
Kulman IR LLC(18)(23)	125,000		125,000	0	0
Cross Street Partners, Inc.(19)(23)	125,000		125,000	0	0
Bill Glaser(23)	250,000	125,000	250,000	0	0
Ryan Hong(21)	57,404		57,404	0	0
Richardson & Patel, LLP(20)	60,714		60,714	0	0
Sean Fitzpatrick	150,000		150,000	0	0
David Baker	225,000		225,000	0	0
Si Phillips	50,000		50,000	0	0
Cameron Broumand	35,000		35,000	0	0
Sylvia Karayan(21)	10,000		10,000	0	0
Jason Cavalier	15,000		15,000	0	0
Greg Suess	104,114		104,114	0	0
Ben Padnos	100,000		100,000	0	0
Mark Abdou	32,907		32,907	0	0
Addison Adams(21)	8,227		8,227	0	0
Michael Cavalier	8,227		8,227	0	0
Mick Cavalier	8,227		8,227	0	0
Francis Chen(21)	2,334		2,334	0	0
Doug Croxall	6,170		6,170	0	0
Jennifer & Michael Donahue(21)	28,009		28,009	0	0

Name of Selling Shareholder	Number of Shares Owned Before Offering(1)	Number of Shares Underlying Warrants Owned Before Offering	Number of Shares Offered in this Offering(1)	Number of Shares Owned After Offering(2)	Percentage Owned After Offering(2)
Dan Estrin	823		823	0	0
Kevin Friedmann(21)	1,440		1,440	0	0
Sylvia Karayan(21)	1,646		1,646	0	0
Abdul Ladha	4,114		4,114	0	0
Jody Samuels(21)	8,227		8,227	0	0
Yossi Stern	10,284		10,284	0	0
Steve Yakubov	10,284		10,284	0	0
TOTAL	13,030,749	5,309,386	13,030,749	0	*

* Less than 1% based on a total of 8,180,832 shares of common stock outstanding on November 1, 2008

(1) Includes up to that number of shares of common stock issuable upon the exercise of a warrant listed in the selling security holder table.

(2) Assumes that all shares will be resold by the selling shareholders after this offering.

(3) The natural person with voting and dispositive powers for this stockholder is Beth Levine.

(4) The natural person with voting and dispositive powers for this stockholder is Michael Sobeck.

(5) The natural person with voting and dispositive powers for this stockholder is Jason Cavalier.

(6) The natural persons with voting and dispositive powers for this stockholder are Nimish Patel and Erick Richardson.

(7) The natural person with voting and dispositive powers for this stockholder is Donald Levine.

(8) Includes 50,000 shares subject to exercise of options to purchase common stock. Excludes 200,000 shares subject to exercise of options to purchase common stock that become exerciseable upon satisfaction of achievement of performance targets.

(9) The natural person with voting and dispositive powers for this stockholder is James Dauwalter.

(10) The natural persons with voting and dispositive powers for this stockholder are Stan Geyer and Beverly Geyer.

(11) Includes 45,595 shares of common stock subject to conversion of a promissory note.

(12) Includes 45,595 shares of common stock subject to conversion of a promissory note.

(13) The natural person with voting and dispositive powers for this stockholder is David Baker. Includes 182,381 shares of common stock subject to conversion of a promissory note.

(14) Includes 182,381 shares of common stock subject to conversion of a promissory note.

(15) Includes 36,476 shares of common stock subject to conversion of a promissory note.

(16) Includes 36,476 shares of common stock subject to conversion of a promissory note.

(17) Includes 182,381 shares of common stock subject to conversion of a promissory note. The natural person with voting and dispositive powers for this stockholder is Shai Stern.

(18) The natural person with voting and dispositive powers for this stockholder is Craig Kulman.

(19) The natural person with voting and dispositive powers for this stockholder is Thomas Pronesti.

(20) The natural person with voting and dispositive powers for this stockholder is Douglas Gold. Richardson & Patel LLP is the outside legal counsel for the Company.

(21) The shareholder is an employee or partner of Richardson & Patel LLP, outside legal counsel for the Company.

(22) Mr. Ruwe is an officer of the Company.

(23) The shareholder has assisted the Company in obtaining financing or investor relations services.

Plan of Distribution

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

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

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

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

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

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

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

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

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

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

Security Ownership of Certain Beneficial Owners and Management

The following tables set forth certain information regarding beneficial ownership of our securities as of November 1, 2008 by (i) each person who is known by us to own beneficially 5% or more of the Company's outstanding common stock, (ii) each of our directors, (iii) each of our named executive officers, and (iv) all of our directors and executive officers as a group. We have determined beneficial ownership in accordance with the rules of the Securities and Exchange Commission. Under these rules, beneficial ownership generally includes voting or investment power over securities. A person (or group of persons) is deemed to be the "beneficial owner" of our securities if he or she, directly or indirectly, has or shares the power to vote or to direct the voting of, or to dispose or direct the disposition of such securities. Accordingly, more than one person may be deemed to be the beneficial owner of the same security. Unless otherwise indicated, the persons named in the table below have sole voting and/or investment power with respect to the number of shares of common stock indicated as beneficially owned by them. A person is also deemed to be a beneficial owner of any security, which that person has the right to acquire within 60 days, such as options or warrants to purchase shares of our common stock. Beneficial ownership and percentage ownership are based on 8,180,832 shares of common stock outstanding as of November 1, 2008. Unless otherwise stated, the address of our directors and executive officers is c/o BioDrain Medical, Inc., 2060 Centre Pointe Boulevard, Suite 7, Mendota Heights, Minnesota 55120.

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

* Less than one percent

(1) Includes 139,563 shares of common stock. Mr. Gadbaw does not currently have any options to acquire additional shares of common stock of the Company.

(2) Includes (i) 29,927 shares of common stock and (ii) options to acquire up to an additional 543,292 shares of common stock of the Company, all of which are presently exercisable.

(3) Includes 84,994 shares of common stock. Mr. Rice does not currently have any options to acquire additional shares of common stock of the Company.

(4) Includes 571,429 shares of common stock and options to acquire up to an additional 50,000 shares of common stock that are presently exercisable. Does not include (i) 571,429 shares of common stock underlying warrants that are not exercisable within 60 days and (ii) options to purchase 200,000 shares of common stock that are not exercisable until achievement of certain performance targets as provided for in Mr. Ruwe's employment agreement.

(5) Includes 107,739 shares of common stock. Mr. Morawetz does not currently have any options to acquire additional shares of common stock of the Company.

(6) Includes options to acquire up to 23,942 shares of common stock, which are presently exercisable, granted pursuant to a director stock option agreement by and between Mr. McGoldrick and the Company.

(7) Includes options to acquire up to 23,942 shares of common stock, which are presently exercisable, granted pursuant to a director stock option agreement by and between Mr. Reding and the Company.

(8) Includes 500,000 shares of common stock. Does not include 500,000 shares of common stock underlying warrants that are not exercisable within 60 days.

(9) Includes 430,000 shares of common stock. Does not include 430,000 shares of common stock underlying warrants that are not exercisable within 60 days.

(10) Includes 571,429 shares of common stock. Does not include 571,479 shares of common stock underlying warrants that are not exercisable within 60 days.

(11) Includes 571,479 shares of common stock. Does not include 571,479 shares of common stock underlying warrants that are not exercisable within 60 days.

(12) Includes 503,602 shares of common stock and, 45,595 shares of common stock underlying convertible notes. Also includes 142,857 shares of common stock held by RP Capital LLC, for which Nimish Patel and Erick Richardson have shared voting and dispositive control. Does not include 60,714 shares of common stock held by Richardson & Patel LLP. The voting and dispositive control of such shares are held by Mr. Douglas Gold. Mr. Patel does not currently have any options to acquire additional shares of common stock of the Company.

(13) Includes 490,734 shares of common stock and, 45,595 shares of common stock underlying convertible notes. Also includes 142,857 shares of common stock held by RP Capital LLC, for which Nimish Patel and Erick Richardson have shared voting and dispositive control. Does not include 60,714 shares of common stock held by Richardson & Patel LLP. The voting and dispositive control of such shares are held by Mr. Douglas Gold. Mr. Richardson does not currently have any options to acquire additional shares of common stock of the Company.

Description of Securities

General

We are authorized to issue only one class of shares, which is designated as common stock. On October 20, 2008, our board of directors approved a resolution to increase the total number of shares of common stock that we are authorized to issue from 11,970,994 to 40,000,000 with $0.01 par value per share. Such action 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.

Common Stock

The securities being offered by the selling shareholders are shares of our common stock. Prior to this offering there has been no public or private trading market for our common stock and there will be no such trading market until our common stock is approved for quotation on the OTC Bulletin Board. As of November 1, 2008, there were issued and outstanding 8,180,832 shares of common stock that were held of record by 88 shareholders.

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

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

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

Warrants and Convertible Notes

As of November 1, 2008, there were outstanding warrants to purchase 5,309,386 shares of our common stock, comprised of 620,096 warrants exercisable at a price of $0.35 per share, issued in conjunction with a bridge loan we undertook in July 2007, and 4,689,290 warrants exercisable at a price of $0.46 per share, issued in conjunction with the private offering we completed in October 2008, including 4,552,862 warrants issued to investors and 136,429 warrants issued to consultants who provided services in connection with the offering. These warrants are immediately exercisable. If there is no effective registration statement registering the underlying shares by August 31, 2009, these warrants contain cashless exercise provisions that allow the holder to exercise the warrant for a lesser number of shares of common stock in lieu of paying cash. The number of shares that would be issued in this case would be based upon the market price of the common stock at the time of the net exercise, or if there is no market price, the price per share as determined by mutual agreement of the Company and the holder. As of September 30, 2008, there were other outstanding warrants to purchase 4,975,050 shares of our common stock at exercise prices ranging from $.02 to $3.76 per share.

There are also outstanding convertible notes to purchase 620,096 shares of our common stock at an exercise price of $.35 per share, which were issued in conjunction with the bridge loan we undertook in July 2007. The convertible notes total $170,000 and are held by seven holders. The notes are convertible into 620,096 shares of common stock. Warrants to purchase 620,096 shares of common stock were granted in connection therewith. The notes bear no interest rate and have passed their original maturity date of April 2008. If there is no effective registration statement registering the underlying shares by within 180 days of the closing of the October 2008 private placement offering, these notes contain certain monetary penalties imposed upon the Company. These penalties will not exceed 16% of the total funds raised, or approximately $250,000, which would be paid out on a pro rata basis to the investors of the October 2008 offering. This penalty was provided to create incentive for the Company to complete the registration of the securities tied to this investment, which would provide potential liquidity to these investors.

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

Stock Options

As of September 30, 2008, there were employment agreements and director stock option agreements outstanding with options to purchase 1,131,174 shares of common stock with various vesting periods and amounts. We have 975,405 shares reserved for issuance under the 2008 Equity Incentive Plan.

Dividends

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

Registration Rights

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

Anti-Takeover Effects of Certain Provisions of Minnesota Law

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

Section 302A.671 of the Minnesota Business Corporation Act applies, with certain exceptions, to any acquisitions of our stock (from a person other than us, and other than in connection with certain mergers and exchanges to which we are a party) resulting in the beneficial ownership of 20% or more of the voting stock then outstanding. Section 302A.671 requires approval of any such acquisition by a majority vote of our shareholders prior to its consummation. In general, shares acquired in the absence of such approval are denied voting rights and are redeemable by us at their then-fair market value within 30 days after the acquiring person has failed to give a timely information statement to us or the date the shareholders voted not to grant voting rights to the acquiring person's shares.

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

Disclosure of Commission Position of Indemnification for Securities Act Liabilities

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

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

(1) has not been indemnified by another organization or employee benefit plan for the same judgments, penalties, fines, including, without limitation, excise taxes assessed against the person with respect to an employee benefit plan, settlements, and reasonable expenses, including attorneys' fees and disbursements, incurred by the person in connection with the proceeding with respect to the same acts or omissions;

(2) acted in good faith;

(3) received no improper personal benefit and Section 302A.255, if applicable, has been satisfied;

(4) in the case of a criminal proceeding, had no reasonable cause to believe the conduct was unlawful; and

(5) in the case of acts or omissions occurring in the person's performance in the official capacity of director or, for a person not a director, in the official capacity of officer, board committee member or employee, reasonably believed that the conduct was in the best interests of the corporation or, in the case of performance by a director, officer or employee of the corporation involving service as a director, officer, partner, trustee, employee or agent of another organization or employee benefit plan, reasonably believed that the conduct was not opposed to the best interests of the corporation. If the person's acts or omissions complained of in the proceeding relate to conduct as a director, officer, trustee, employee, or agent of an employee benefit plan, the conduct is not considered to be opposed to the best interests of the corporation if the person reasonably believed that the conduct was in the best interests of the participants or beneficiaries of the employee benefit plan

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

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

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

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

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

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

(1) by the board by a majority of a quorum, if the directors who are at the time parties to the proceeding are not counted for determining either a majority or the presence of a quorum;

(2) if a quorum under clause (1) cannot be obtained, by a majority of a committee of the board, consisting solely of two or more directors not at the time parties to the proceeding, duly designated to act in the matter by a majority of the full board including directors who are parties;

(3) if a determination is not made under clause (1) or (2), by special legal counsel, selected either by a majority of the board or a committee by vote pursuant to clause (1) or (2) or, if the requisite quorum of the full board cannot be obtained and the committee cannot be established, by a majority of the full board including directors who are parties;

(4) if a determination is not made under clauses (1) to (3), by the affirmative vote of the shareholders required by Section 302A.437 of the Minnesota Statutes, but the shares held by parties to the proceeding must not be counted in determining the presence of a quorum and are not considered to be present and entitled to vote on the determination; or

(5) if an adverse determination is made under clauses (1) to (4) or under paragraph (b), or if no determination is made under clauses (1) to (4) or under paragraph (b) within 60 days after (i) the later to occur of the termination of a proceeding or a written request for indemnification to the corporation or (ii) a written request for an advance of expenses, as the case may be, by a court in this state, which may be the same court in which the proceeding involving the person's liability took place, upon application of the person and any notice the court requires. The person seeking indemnification or payment or reimbursement of expenses pursuant to this clause has the burden of establishing that the person is entitled to indemnification or payment or reimbursement of expenses.

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

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

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

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

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

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

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

Where You Can Find More Information

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

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

Experts

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

Legal Matters and Interests of Named Experts

Richardson & Patel LLP has given us an opinion relating to the due issuance of the common stock being registered. The law firm of Richardson & Patel, LLP ("R & P") owns 60,714 shares of our common stock. Nimish Patel, a principal of R & P, holds 412,411 shares of our common stock, 45,595 shares underlying certain convertible notes, and 45,595 shares underlying certain warrants. Erick Richardson, another principal of R & P, holds 399,543 shares of our common stock, 45,595 shares underlying certain convertible notes, and 45,595 shares underlying certain warrants. RP Capital, a limited liability company owned by Mr. Richardson and Mr. Patel, holds 142,857 shares of our common stock and warrants to purchase 142,857 shares of our common stock. Other R & P employees and principals beneficially own 320,858 shares of our common stock and warrants to purchase 28,571 shares of our common stock. This describes all Company securities held by Richardson & Patel LLP and its affiliates. All of these shares are being registered pursuant to this registration statement.

Financial Information

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

INDEX TO FINANCIAL STATEMENTS

BioDrain Medical, Inc.

(A Development Stage Company)

Interim Financial Statements

September 30, 2008

(Unaudited)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Olsen, Thielen & Co. Ltd.

St. Paul, Minnesota
January 12, 2009

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

	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)	September 30, 2007 (Unaudited)
ASSETS			
Current assets:			
Cash	$ 744,929	$ 4,179	$ 17,733
Prepaid expenses	37,241	4,558	547
Other current assets	163,333,	—	—
Total current assets	945,503	8,737	18,280
Fixed assets	8,699	—	—
Intangibles, net	134,299	113,056	110,425
Total assets	$ 1,088,501	$ 121,793	$ 128,705
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Current portion of long-term debt (See Note 6)	$ 185,800	$ 203,800	$ 199,800
Accounts payable	284,567	207,657	136,072
Accrued expenses	277,087	226,429	439,818
Notes payable (See Note 6)	10,000	10,000	20,973
Total current liabilities	757,454	647,886	796,663
Long-term debt (See Note 6)	129,560	136,508	140,682
Stockholders' equity (deficit):			
Common stock $0.01 par value; 40,000,000, 11,970,994, 11,970,994 shares authorized; 8,180,832, 1,376,105 and 1,375,105 shares issued and outstanding	87,333	13,761	13,761
Additional paid-in capital	1,831,821	112,309	108,400
Deficit accumulated during development stage	(1,717,667)	(788,671)	(930,801)
Total stockholders' equity (deficit)	201,487	(662,601)	(808,640)
Total liabilities and stockholders' equity (deficit)	$ 1,088,501	$ 121,793	$ 128,705

See accompanying notes to financial statements.

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

	For the Nine Months Ended September 30, 2008 (Unaudited)	For the Year Ended December 31, 2007 (Audited)	For the Nine Months Ended September 30, 2007 (Unaudited)	For the Period From April 23, 2002 (Inception) To September 30, 2008 (Unaudited)
Operating expenses	$ 826,411	$ 126,684	$ 282,839	$ 1,428,889
Product development	$ 91,449	$ —	$ 393	$ 224,118
Interest expense	$ 11,135	33,238	18,819	64,660
Net loss	$ 928,995	$ 159,922	$ 302,051	$ 1,717,667

See accompanying notes to financial statements.

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

	Common Stock		Additional	Accumulated	
	Shares	Amount	Paid-in Capital	Deficit	Total
Issuance of common stock 9/1/02 at $.0167/share (1)	598,549	$ 10,000	$ —	$ —	$ 10,000
Issuance of common stock 10/23/02 at $1.67/share	2,993	50	4,950		5,000
Vested stock options and warrants	—	—	—	—	—
Net loss	—	—	—	(51,057)	(51,057)
Balance on December 31, 2002 (Unaudited)	601,542	$ 10,050	$ 4,950	$ (51,057)	$ (36,057)
Issuance of common stock 2/12/03 at $.0167/share (2)	23,942	400	—	—	400
Issuance of common stock 6/11-12/3/03 (3)	21,548	360	34,650		35,000
Vested stock options and warrants	—	—	—	—	—
Net loss	—	—	—	(90,461)	(90,461)
Balance on December 31, 2003 (Unaudited)	647,032	$ 10,810	$ 39,600	$ (141,518)	$ (91,118)
Issuance of common stock 5/25/04 at $1.67/share (4)	6,567	110	—	—	110
Vested stock options and warrants	—	—	—	—	—
Net loss	—	—	—	(90,353)	(90,353)
Balance on December 31, 2004 (Unaudited)	653,599	$ 10,920	$ 39,600	$ (231,871)	$ (181,361)
Issuance of common stock 12/14/05 at $1.67/share (5)	14,964	250	—	—	250
Vested stock options and warrants	—	—	2,793	—	2,793
Net loss	—	—	—	(123,853)	(123,853)
Balance on December 31, 2005 (Unaudited)	668,563	$ 11,170	$ 42,393	$ (355,724)	$ (302,161)
Issuance of common stock 5/16, 8/8/06 at $1.67/share (6)	86,869	1,451	—	—	1,451
Issuance of common stock 10/19, 23/06 at $1.67/share (7)	38,906	650	—	—	650
Issuance of common stock 12/01/06 at $1.67/share (8)	28,730	480	44,320	—	43,000
Vested stock options and warrants	—	—	13,644	—	13,644
Net loss	—	—	—	(273,026)	(273,026)
Balance on December 31, 2006	823,068	$ 13,751	$ 100,357	$ (628,750)	$ (514,642)
Issuance of common stock 1/30/07 at $1.67/share (9)	599	10	990	—	1,000
Vested stock options and warrants	—	—	10,962	—	10,962
Net loss	—	—	—	(159,922)	(159,922)
Balance on December 31, 2007	823,667	$ 13,761	$ 112,309	$ (788,671)	$ (662,601)
Issuance of common stock 6/11 - 9/30//08 at $.35/share (10)	7,357,164	73,572	1,508,724	—	1,582,695
Vested stock options and warrants	—	—	210,389	—	210,389
Net loss	—	—	—	(928,995)	(928,995)
Balance on September 30, 2008 (Unaudited)	8,810,382	$ 87,333	$ 1,831,821	$ (1,717,667)	$ 201,487

(1) Founders shares, 1,000,000 pre-split.
(2) 40,000 shares valued at $1.00 per share for loan guarantees by management.
(3) Investment including 670 shares issued as a finders fee of 10%.
(4) For patent legal fee payments.
(5) For loan guarantees by management.
(6) For vendor contractual consideration.
(7) Employment agreements.
(8) Investment.
(9) Conversion of convertible note by management.
(10) Investment, October 2008 financing.

See accompanying notes to financial statements.

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

	For the Nine Months Ended September 30, 2008 (Unaudited)	For the Year Ended December 31, 2007 (Audited)	For the Period From April 23, 2002 (Inception) To September 30, 2008 (Unaudited)
Cash flows from operating activities:			
Net loss	$ (928,995)	$ (159,922)	$ (1,717,667)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization	—	47	—
Vested stock options and warrants	210,389	10,962	237,788
Changes in assets and liabilities:			
Prepaid expenses	(32,684)	(4,287)	(37,242)
Other assets	(163,333)	—	(163,333)
Accounts payable	76,910	127,125	284,567
Accrued expenses	50,657	(187,092)	277,086
Net cash used in operating activities	(787,056)	(213,167)	(1,118,801)
Cash flows from investing activities:			
Purchases of fixed assets	(8,699)	—	(8,699)
Purchases of intangibles	(21,242)	(46,092)	(134,298)
Net cash used in investing activities	(29,941)	(46,092)	(142,997)
Cash flows from financing activities:			
Note payable to shareholder	—	(10,973)	(10,973)
Proceeds on long-term debt	—	274,000	421,505
Principal payments on long-term debt	(24,949)	(1,592)	(85,173)
Issuance of common stock (1)	1,582,696	1,000	1,681,367
Net cash provided by financing activities	1,557,747	273,408	2,006,726
Net increase in cash and cash equivalents	740,750	14,149	744,929
Cash at beginning of period	4,179	1,003	—
Cash at end of period	$ 744,929	$ 15,152	$ 744,929

(1) All funds collected were a part of the October 2008 financing at $.35 per unit, which included one share of common stock and one warrant to purchase an equal number of shares at $.46 per share as of September 30, 2008.

See accompanying notes to financial statements.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Accounting Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The interim financial statements include all adjustments that, in the opinion of management, are necessary in order to make the financial statements not misleading in compliance with Rule 8-03 of Regulation S-X.

Intangible Assets

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

Income Taxes

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

Research and Development

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

Patent and Intellectual Property

The Company recently completed and executed an agreement to secure exclusive ownership of the patent-pending product and rights from an inventor, Marshall Ryan. Mr. Ryan received a combination of cash and warrants, and he will receive a 4% royalty on FMS sales for the life of the patent. 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, will 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 ninety five dollars ($95.00) per hour. Mr. Ryan also received 150,000 warrants to purchase shares of our common stock at a price of $.35 per share. The warrant has a term of five years, ending on June 30, 2013. 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 any products; 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 any products; 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 any product. The fair value assigned to the warrants is $52,500 based on the per share price of the October 2008 financing.

NOTE 2 – DEVELOPMENT STAGE OPERATIONS

The Company was formed April 23, 2002. Since inception to September 30, 2008, 7,427,685 shares have been issued between par value and $1.67. Operations since incorporation have been devoted to raising capital, obtaining financing, development of the Company's product, and administrative services.

NOTE 3 – STOCK OPTIONS AND WARRANTS

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

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

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

The Company has elected to use the Black-Scholes-Merton option pricing model. The fair value of these options was calculated using a risk-free interest rate of 3.49% to 5.07%, an expected life of 5 years and an expected volatility and dividend rate of 0%. Compensation expense recognized in the financial statements was $210,311 and $8,245 for September 30, 2008 and 2007, respectively.

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

	Stock Options (1)		Warrants (1)	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding at December 31, 2005	17,956	$ 1.67	20,950	$ 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	5,985	1.67	28,502	0.35
Outstanding at December 31, 2007	47,882	$ 1.67	121,278	$ 1.04
Issued	1,083,292	0.17	4,853,772	0.45
Outstanding at September 30, 2008	1,131,174	$ 0.24	4,975,050	0.46

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

At September 30, 2008, 651,174 stock options are fully vested and currently exercisable. 4,850,050 warrants are fully vested and exercisable.

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

Range of Exercise Prices	Shares	Weighted Average Remaining Life
Options		
$0.01	$ 543,292	$ 9.68
$0.35	540,000	4.61
$1.67	47,882	3.15
Warrants		
$0.02	71,826	5.70
$0.35	178,502	4.01
$0.46	4,667,859	2.75
$1.67	44,892	2.94
$3.76	11,971	0.04

Stock options and warrants expire on various dates from October 2008 to December 2013. In October 2007, the exercise price on the $3.34 warrants changed to $3.76 in accordance with the common stock warrant purchase agreement.

We determined that 1,920,000 shares of our common stock were to be allocated to our shareholders existing at the time of the October 2008 offering (also referred to as the original shareholders, the Founders, or the selling shareholders). Since the total of our fully-diluted shares of common stock was greater than 1,920,000, our 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. 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 were 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 common stock of 20,000,000 was proportionately divided by 1.2545 to 15,942,607.

On October 20, 2008, the Board of Directors (i) approved 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 11,970,994 and (ii) approved a resolution to increase the number of authorized shares of our common stock from 11,970,994 to 40,000,000, which 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.

Stock, Stock Options and Warrants Granted by the Company

Warrants

In 2005 and 2006, the Company granted warrants to purchase an aggregate of 17,958 shares (options to purchase 2,993 shares each) of common stock at $1.67 per share to Debbie Heitzman, Mary Wells Gorman and David Feroe for their services on the Medical Advisory Board and to Karen Ventura, Nancy Kolb and Kim Shelquist for their sales and marketing advisory services.

In 2006, the Company granted warrants to purchase 35,913 shares of common stock at $.02 per share to Dr. Arnold Leonard for his services on the Medical Advisory Board. The warrants contain an anti-dilution provision that provides that such shares would double upon the Company's total outstanding shares reaching 2 million. The second 35,913 shares of the Company's common stock were granted in June 2008 upon receiving 2 million outstanding shares of common stock through the October 2008 financing.

On December 1, 2006, the Company fully repaid two of our three loans due to Wisconsin Rural Enterprise Fund ("WREF"). As of December 2006 the total principal due was $37,500. To pay the outstanding loan to WREF, the Company issued warrants to purchase 20,949 shares of common stock at $1.67 per share to WREF.

In August 2008, the Company issued a warrant to purchase 50,000 shares of common stock at $.46 per share to Thomas Bachinski, a regulatory consultant, for his past services.

In 2006, the Company issued warrants to purchase 5,985 shares of common stock at $1.67 per share to Andcor Companies, Inc. as part of a convertible loan agreement.

In 2007, the Company granted warrants to purchase up to 28,502 shares of common stock at $.46 per share to Roy Moore and Carl Moore as part of a convertible loan agreement with them. There were no special terms contained in the warrant other than that the two individuals would pay a per share price equal to that of the October 2008 financing when exercising their warrants.

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

The Company issued warrants to purchase an aggregate of 4,552,862 units to investors in connection with the October 2008 financing, which was comprised of one share of common stock for $.35 per share and one warrant to purchase one share of common stock for $.46 per share. Changes in exercise prices or number of warrants would occur if the Company issues any shares of its common stock (other than excluded securities, as defined in the warrant) for a consideration per share less than the exercise price in effect at the time of exercise of the warrant. The warrant contains a cashless exercise provision which provides that after one year following the closing date of the offering, if a registration statement covering the warrants is not available for resale for the warrants, the warrant holder may exercise the warrant in whole or in part in lieu of making a cash payment by electing to receive the net number of common stock determined by the following formula: net number = ((A x B)- (A x C))/B. A equals the total number of shares with respect to which the warrant is then being exercised. B equals the closing sale price of the shares of common stock (as reported by Bloomberg) on the date immediately preceding the date of notice of an exercise. C equals the exercise price then in effect for the applicable warrant shares at the time of such exercise. There are no registration obligations on the Company nor are there any liquidated damages or potential penalties to which the Company is subject.

Stock and Stock Options

On August 22, 2005, the Company issued options to purchase 17,957 shares of our common stock at $1.67 per share to a member of our board of directors, Thomas McGoldrick, for his services as a director. The options were grantable annually at 10,000 per year starting in 2008. On August 22, 2006, the Company issued options to purchase 5,986 shares of common stock at $.46 per share to Mr. McGoldrick in connection with a stock option agreement with him.

On December 14, 2005, the Company issued 7,482 shares of common stock to officers Lawrence Gadbaw and Gerald Rice for personal guarantees on Company loans.

On May 16, 2006, the Company issued 71,906 shares of common stock to the inventor of our intellectual property, Marshall C. Ryan, for the development work he performed with respect to our product.

On August 8, 2006, the Company issued 14,964 shares of common stock to Andcor Companies, Inc. in partial payment of an invoice.

On October 23, 2006, the Company issued 8,979 shares of common stock to a former employee as a part of his compensation package in his employment agreement.

On November 11, 2006, the Company issued options to purchase 17,957 shares of common stock at $1.67 per share to Andrew Reding, for his services as a director. The options were grantable annually at 10,000 per year starting in 2007. On November 11, 2007, the Company granted options to purchase 5,986 shares of common stock at $.46 per share to director Andrew Reding pursuant to a stock option agreement with him.

On December 1, 2006, the Company issued 3,986 shares of common stock to pay a consulting fee to Wisconsin Business Innovation Corporation, a related firm of WREF.

On January 30, 2007 the Company fully repaid a Company loan of $1,000 due one of its former employees by issuing him 599 shares of common stock.

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

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

On June 16, 2008, the Company entered into an employment agreement with Chad Ruwe, Executive Vice President of Operations, pursuant to which the Company granted him options to purchase 50,000 shares of common stock.

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

On August 11, 2008, the Company entered into an employment agreement with David Dauwalter, Director of Sales, pursuant to which the Company granted him options to purchase 50,000 shares of common stock.

In 2006, Kevin Davidson was granted 50,000 shares of the Company's common stock in connection with his entering into an employment agreement with the Company. The grant contained an anti-dilution protection amounting to 3.81% of the fully-diluted outstanding common stock of the Company up to the completion of the first $1,000,000 of new funding raised, which pursuant to an option agreement dated June 5, 2008 amending his employment agreement, Mr. Davidson chose to receive in options to purchase 543,292 shares of common stock, exercisable at $.01, in lieu of obtaining the 50,000 shares to which he was entitled. The options vest immediately and the term of the options is 10 years from the date of issuance. In 2008, Mr. Davidson achieved the $1 million funding target provided for in his employment agreement and therefore his annual salary was increased to $170,000. On September 12, 2008 the Board of Directors ratified the issuance of the 543,292 options to Mr. Davidson as a result of the milestones achieved pursuant to his employment agreement. The options are recorded by footnote only in our financial statements; however vesting will be recorded as compensation expense in the operating statement.

Other Securities For Issuance Upon Certain Contingencies

In 2007, three of the Company's directors/executive officers, Lawrence Gadbaw, Gerald Rice and Kevin Davidson, and a former employee that left the Company in April 2006, agreed to waive an aggregate of approximately $346,700 in accrued, unpaid salaries for their services through June 2007 and Mr. Morawetz agreed to waive his consulting fees of $84,963 (please see description below). In December 2007, upon request from the Company's funding brokers, the Company reduced accrued payroll liabilities by $346,714 through November 2007. This total was approximated from waived compensation from Mr. Davidson in the amount of $70,000, waived compensation from Mr. Rice in the amount of $125,000, waived compensation from Mr. Gadbaw in the amount of $138,541 and waived compensation from an employee who left the Company in April 2006 in the amount of $13,369. In exchange therefor, Mr. Gadbaw and Mr. Rice were each granted options to purchase 160,000 shares of common stock and Mr. Davidson was granted options to purchase 80,000 shares of common stock, all at $.35 per share with vesting contingent upon the Company raising an additional $3 million in financing subsequent to the October 2008 financing. To date there have been no stock issuance from these grants. In addition, Mr. Rice will receive one-time cash bonus of $46,000 and Mr. Davidson will receive one-time cash bonus of $23,000 when the Company raises an additional $3 million subsequent to the October 2008 financing and Mr. Gadbaw is currently receiving $2,000 per month until a total of $46,000 of accrued salary liability is paid to him. Because the bonus and stock option grants to Mr. Davidson and Mr. Rice are contingent on raising an additional $3 million, no accounting entry was made. The fair value of the equity instruments granted to Mr. Davidson and Mr. Rice was based on the funding price of $.35 per share for a total of $84,000.

In September 2002, an oral agreement was made with director Peter Morawetz whereby he would provide sales, marketing and general administrative support to the Company for a fee of $1,770 per month. The Company's expectation at the time was that the Company would have received equity financing to fund these payments. The Company did not receive that funding. Pursuant to an oral agreement with Mr. Morawetz the Company did not pay these amounts. The Company accrued these fees through August 2006 when Mr. Morawetz's support services ended. The fees accrued totaled $84,963 but no amount has been paid. Mr. Morawetz and the Company have discussed reducing the fees to be paid to a lower amount and, although no agreement has been reached, the parties have reached an oral understanding that the amount to be paid will be less. Based on this understanding, the Company has not accrued any expense or liability for Mr. Morawetz's services.

On June 16, 2008, in connection with Chad Ruwe's employment agreement, in addition to the grant of options to purchase 50,000 shares of common stock, the Company granted Mr. Ruwe options to purchase up to 200,000 shares of the Company's common stock contingent upon reaching certain performance goals, the timing of which was not set. The Company believes that these performance goals will be met, with respect to 100,000, in the fourth quarter of 2008 and, with respect to the other 100,000, in the first or second quarters of 2009.

On August 11, 2008, in connection with David Dauwalter's employment agreement, in addition to the grant of options to purchase 50,000 shares of common stock, the Company granted Mr. Dauwalter options to purchase up to 40,000 shares of common stock contingent upon reaching certain performance goals, the timing of which was not set. The Company believes that these goals will be met, with respect to 30,000 in the first and second quarters of 2009 and 10,000 in the third and fourth quarters of 2009.

In August and September 2008 the Company agreed to issue warrants to purchase 75,000 shares of common stock to each of two human resource consulting firms, Andcor Companies, Inc. and Taylor & Associates, Inc., as payment for their search for candidates to fill the position of Vice President of Sales and Marketing for our Company. With respect to Andcor Companies, Inc., the Company reduced a contingency agreement with them dated July 25, 2008 from 30% of compensation of the candidate if hired, to warrants to purchase 75,000 shares of common stock at $.46 per share. Andcor will not earn the warrants until the candidate is hired and remains an employee for a period of at least 1 year.

On October 20, 2008, the Company entered into an agreement with Gregory Sachs, a regulatory consultant, pursuant to which the Company granted warrants to purchase up to 50,000 shares of our common stock contingent upon reaching certain performance goals from April 1, 2009 to June 30, 2009. Mr. Sachs is assisting the Company in obtaining FDA 510(k) approval. The purpose of the performance goal provision is to help to ensure a timely approval of the 510(k). Upon reaching FDA approval by April 1, 2009, Mr. Sachs would receive warrants to purchase 50,000 shares of our common stock; after April 1, 2009, but on or prior to May 1, 2009, he would receive warrants to purchase 25,000 shares of our common stock; after May 1, 2009, but on or before June 30, 2009, he would receive warrants to purchase 10,000 shares of our common stock; and after June 30, 2009, he would receive no warrants. The basis used for valuation of the options and warrants was the stock and warrant prices at which investors of the October 2008 financing paid and/or will pay for their shares.

From FR-72 Critical Accounting Estimates, we provide the following with regard to valuation of stock options and warrants: the basis used for valuation of the options and warrants was the stock and warrant prices at which investors of the October funding paid and/or will pay for their shares. The valuation is subject to change due to downward pressure from the current economic downturn and unknown barriers to successful approvals of our product by FDA and UL or TUV or from successful market penetration. We believe that the likelihood of change in the near future is relatively high; however, not necessarily in a negative manner. Warrant and stock option pricing is often sensitive to change in the market.

NOTE 4 – INCOME TAXES

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

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

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

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

	September 30,	
	2008	**2007**
	(Unaudited)	**(Unaudited)**
Deferred Tax Asset:		
Net Operating Loss	$ 428,000	$ 231,000
Total Deferred Tax Asset	428,000	231,000
Less Valuation Allowance	428,000	231,000
Net Deferred Income Taxes	$ —	$ —

NOTE 5 –NOTES PAYABLE

The Company has a convertible debenture with Andcor Companies, Inc. (“Andcor”) of $10,000 at 10.25% that matured in 2007 and is now overdue. The debenture is convertible to the Company’s common stock at $0.90 per share or the price per share at which the next equity financing agreement is completed. The convertible debenture has not yet been paid, and it is currently past due. The Company has had conversations with Andcor who understands our potential liquidity issues. While Andcor could demand payment on this note at any time, they have expressed an interest in working with us to wait until additional funds are secured by the Company. Further, Andcor has left open the possibility of converting the note into shares of the Company’s common stock, which would require no cash outlay by the Company at this time.

NOTE 6 – LONG-TERM DEBT

Long-term debt is as follows:

	September 30, 2008	September 30, 2007
Notes payable to several individuals due April 2008 including 8% fixed interest and is now overdue. The notes are convertible into 620,096 shares of the Company's common stock and automatically convert at the effective date of this registration statement.	$ 170,000	$ —
Note payable to bank in monthly installments of $1,275/including variable interest at 2% above the prevailing prime rate (7.00% at June 30, 2008) to August 2011 when the remaining balance is payable. The note is personally guaranteed by executives of the Company.	41,359	49,901
Note payable to NWBDC in interest only payments at 8% to December 2008 when the remaining balance is payable. The note is personally guaranteed by executives of the Company.	—	18,000
Notes payable to two individuals in interest only payments at 12% to March 2012 when the remaining balance is payable. The notes are convertible into 285,715 shares of stock in the Company at $.35 per share.	100,000	100,000
Notes payable to four shareholders of the Company that are overdue. The notes are convertible into 11,429 shares of stock in the Company at $.35 per share.	4,000	4,000
Total	315,359	181,901
Less amount due within one year	185,800	39,900
Long-Term Debt	$ 129,559	$ 142,001

Cash payments for interest were $2,718 on September 30, 2008 and $3,964 in 2007. The notes payable of $10,000, $170,000, $100,000 and $4,000 have passed their due dates and could be called by the holders, putting additional strains on our capital requirements. The note for $170,000 contains penalties amounting to a one-time penalty of $25,000 if this registration statement is not filed within 120 days of August 31, 2008 and $5,000 per month until the registration statement is declared effective by the SEC, after 180 days from August 31, 2008, with the maximum penalty of approximately $250,000 if the registration statement is not effective within 180 days from August 31, 2008.

Principal payments required during the next five years are: 2009 - $185,800; 2010 - $12,000; 2011 - $13,300; 2012 - $107,300; and 2013 - $0.

Commitments and Contingencies

In July 2007, we entered into a restructuring agreement whereby in the event that we fail to obtain FDA approval by the end of August 2009, the majority-in-interest of investors ("the Investors") through our October 2008 offering would have the right to cause the Company to make the following restructuring changes:

1. All Company assets will be distributed to a wholly-owned subsidiary ("Privco"). Privco will have the identical number of common shares outstanding as the Company. The Investors will have the same percentage ownership of Privco that they had in the Company and will maintain their shares of Company common stock.
2. BioDrain Original Shareholders (the "Founders") will cancel all Company stock held by the Founders only and the Founders will no longer own any Company equity. Ownership of shares of the Company's common stock by the Investors would not be affected.
3. In consideration of such cancellation, the Founders will receive Privco stock and options so that the Founders have the same percentage ownership of Privco that it had in the Company. The Company will retain the rest of Privco equity.
4. All Company stock options will be cancelled and replaced with Privco stock options.
5. The Company will have new directors and officers selected by Investors.
6. In the event of a reverse merger or other similar transaction with a new operating business, the Company will either spin-off the remaining Privco equity to the remaining Company shareholders or liquidate the Privco securities and distribute any net proceeds to the Company shareholders.

These potential restructuring changes were put in place in the October 2008 financing to reduce the risk of not obtaining FDA approval for those Investors involved in that financing. We were able to attract more investors for that financing by providing the Investors with the restructuring agreement, which provides them with additional potential value (ownership of a public entity) should we not achieve FDA approval by the end of August 2009. The potential impact on our business could be to cause our operations to cease. The financial statements of the Company would show no value; rather all assets would be in Privco, the new entity. Operations could be continued from Privco, however, the Investors would have the option to liquidate our assets and distribute the proceeds to our shareholders if a reverse merger or similar transaction took place.

NOTE 7 – SUBSEQUENT EVENTS

Subsequent to September 30, 2008, the Company received $21,700 after financing, commissions and other associated costs in the October 2008 offering. This offering closed as of October 30, 2008.

On October 20, 2008, the Board of Directors approved a second reverse stock split of 1.33-to-1. This brought the total reverse stock split to 1-for -1.670705. The authorized number of common stock of 15,942,607 was proportionately divided by 1.33177 to 11,970,994.

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

On December 30, 2008 the Company received notification from the U.S. Patent Office that its patent application had been issued as U.S. Patent No. 7,469,727.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
BioDrain Medical, Inc.
Orono, Minnesota

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

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

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

/s/Olsen Thielen & Co., Ltd

St. Paul, Minnesota
August 12, 2008

BioDrain Medical, Inc.

(A Development Stage Company)

Financial Statements

December 31, 2007

(Audited)

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

	December 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash	$ 4,179	$ 1,003
Prepaid expenses	4,558	271
Total current assets	8,737	1,274
Intangibles, net	113,056	67,011
Total assets	$ 121,793	$ 68,285
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt (See Note 6)	$ 203,800	$ 20,500
Accounts payable	207,657	80,532
Accrued expenses	226,429	413,521
Note payable (See Note 6)	10,000	10,000
Note Payable to Shareholder	—	10,973
Total current liabilities	647,886	535,526
Long-term debt (See Note 6)	136,508	47,400
Stockholders' equity (deficit):		
Common stock $0.01 par value; 20,000,000 shares authorized; 1,376,105 and 1,375,105 shares issued	13,761	13,751
Additional paid-in capital	112,309	100,357
Deficit accumulated during development stage	(788,671)	(628,749)
Total stockholders' equity (deficit)	(662,601)	(514,641)
Total liabilities and stockholders' equity (deficit)	$ 121,793	$ 68,285

See accompanying notes to financial statements.

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

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

See accompanying notes to financial statements.

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

	Common Stock		Additional	Accumulated	
	Shares	Amount	Paid-in Capital	Deficit	Total
Issuance of common stock 9/1/02 at $.0167/share (1)	598,549	$ 10,000	$ —	$ —	$ 10,000
Issuance of common stock 10/23/02 at $1.67/share	2,993	50	4,950		5,000
Vested stock options and warrants	—	—	—	—	—
Net loss	—	—	—	(51,057)	(51,057)
Balance on December 31, 2002 (Unaudited)	601,542	10,050	4,950	(51,057)	(36,057)
Issuance of common stock 2/12/03 at $.0167/share (2)	23,942	400	—	—	400
Issuance of common stock 6/11-12/3/03 (3)	21,548	360	34,650		35,000
Vested stock options and warrants	—	—	—	—	—
Net loss				(90,461)	(90,461)
Balance on December 31, 2003 (Unaudited)	647,032	10,810	39,600	(141,518)	(91,118)
Issuance of common stock 5/25/04 at $1.67/share (4)	6,567	110	—	—	110
Vested stock options and warrants	—	—	—	—	—
Net loss	—	—	—	(90,353)	(90,353)
Balance on December 31, 2004 (Unaudited)	653,599	10,920	39,600	(231,871)	(181,361)
Issuance of common stock 12/14/05 at $1.67/share (5)	14,964	250	—	—	250
Vested stock options and warrants	—	—	2,793	—	2,793
Net loss	—	—	—	(123,853)	(123,853)
Balance on December 31, 2005 (Unaudited)	668,563	11,170	42,393	(355,724)	(302,161)
Issuance of common stock 5/16, 8/8/06 at $1.67/share (6)	86,869	1,451	—	—	1,451
Issuance of common stock 10/19, 23/06 at $1.67/share (7)	38,906	650	—	—	650
Issuance of common stock 12/01/06 at $1.67/share (8)	28,730	480	44,320	—	44,800
Vested stock options and warrants	—	—	13,644	—	13,644
Net loss	—	—	—	(273,026)	(273,026)
Balance on December 31, 2006	823,068	13,751	100,357	(628,750)	(514,642)
Issuance of common stock 1/30/07 at $1.67/share (9)	599	10	990	—	1,000
Vested stock options and warrants	—	—	10,962	—	10,962
Net loss				(159,922)	(159,922)
Balance on December 31, 2007	823,667	13,761	112,309	(788,671)	(662,601)

(1) Founders shares, 1,000,000 pre-split.
(2) 40,000 shares valued at $1.00 per share for loan guarantees by management.
(3) Investment including 670 shares issued as a finders fee of 10%.
(4) For patent legal fee payments.
(5) For loan guarantees by management.
(6) For vendor contractual consideration.
(7) Employment agreements.
(8) Investment.
(9) Conversion of convertible note by management.

See accompanying notes to financial statements.

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

	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006	For the Period From April 23, 2002 (Inception) To December 31, 2007
Cash flows from operating activities:			
Net loss	$ (159,922)	$ (273,026)	$ (788,671)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization	47	70	350
Vested stock options and warrants	10,962	13,644	27,399
Changes in assets and liabilities:			
Prepaid expenses	(4,287)	201	(4,558)
Accounts payable	127,125	46,823	207,657
Accrued expenses	(187,092)	198,118	226,429
Net cash used in operating activities	(213,167)	(14,170)	(331,394)
Cash flows from investing activities:			
Purchases of intangibles	(46,092)	(29,675)	(113,406)
Net cash used in investing activities	(46,092)	(29,675)	(113,406)
Cash flows from financing activities:			
Note payable to shareholder	(10,973)	—	(10,973)
Proceeds on long-term debt	274,000	10,000	421,505
Principal payments on long-term debt	(1,592)	(37,658)	(60,224)
Issuance of common stock	1,000	46,901	98,671
Net cash provided by financing activities	262,435	19,243	448,979
Net increase (decrease) in cash and cash equivalents	3,176	(24,602)	4,179
Cash at beginning of year	1,003	25,605	—
Cash at end of year	$ 4,179	$ 1,003	$ 4,179

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Accounting Estimates

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

Intangible Assets

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

Income Taxes

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

Research and Development

Research and development costs are charged to operations as incurred. Research and development costs were $1,434 and $75,383 for 2007 and 2006, respectively. As of December 31, 2007, the Company accrued $100,000 for unbilled product development work since 2002. Mid-State Stainless, Inc., the company who performed the product development work, notified the Company in late 2007 that the amount for all development costs totaled $100,000 and would be billed to the Company as a lump sum. Mid-State Stainless, Inc. later billed the Company for that amount in 2008. The amount remains in accounts payable as of the date of this registration statement.

NOTE 2 – DEVELOPMENT STAGE OPERATIONS

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

NOTE 3 – STOCK OPTIONS AND WARRANTS

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. Under 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 a stock option plan, which allows issuance of both incentive and non-qualified stock options to employees, directors and consultants of the Company, where permitted under the plan. The exercise price for each stock option is determined by the Board of Directors. Vesting requirements are determined by the Board of Directors when granted and currently range from immediate to three years. Options under this plan have terms varying from five to seven years. The Company was required to adopt the provisions of FASB Statement No. 123R, *Share-Based Payment* (SFAS 123R) effective January 1, 2006. As permitted by SFAS No. 123R, the Company accounts for stock option awards using the calculated value method. The Company opted for early adoption of the provisions of SFAS 123R.The provisions of SFAS No. 123R are applicable to stock options awarded by the Company beginning in 2005. Under SFAS No. 123R, the Company is required to recognize compensation expense for options granted in 2005 and thereafter.

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

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

	Stock Options		Warrants	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding at December 31, 2005	17,956	$ 1.67	20,950	$ 2.62
Issued	23,942	1.67	71,826	0.85
Outstanding at December 31, 2006	41,897	$ 1.67	92,776	$ 1.25
Issued	5,985	1.67	28,502	0.35
Outstanding at December 31, 2007	47,882	$ 1.67	121,278	$ 1.04

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

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

Range of Exercise Prices	Shares	Weighted Average Remaining Life
Options		
$0.35	11,970	4.37
$1.67	41,898	3.31
Warrants		
$0.02	35,913	5.45
$0.35	28,502	4.17
$1.67	44,892	3.69
$3.76	11,971	0.79

Stock options and warrants expire on various dates from October 2008 to December 2013. In October 2007, the exercise price on the $3.34 warrants changed to $3.76 in accordance with the common stock warrant purchase agreement.

Securities for issuance upon certain contingencies:

In 2007, three of the Company's directors/executive officers, Lawrence Gadbaw, Gerald Rice and Kevin Davidson, and a former employee that left the Company in April 2006, agreed to waive an aggregate of approximately $346,700 in accrued, unpaid salaries for their services through June 2007 and Mr. Morawetz agreed to waive his consulting fees of $84,963. In December 2007, upon request from the Company's funding brokers, the Company reduced accrued payroll liabilities by $346,714 through November 2007. This total was approximated from waived compensation from Mr. Davidson in the amount of $70,000, waived compensation from Mr. Rice in the amount of $125,000, waived compensation from Mr. Gadbaw in the amount of $138,541 and waived compensation from an employee who left the Company in April 2006 in the amount of $13,369. In exchange therefor, Mr. Gadbaw and Mr. Rice were each granted options to purchase 160,000 shares of common stock and Mr. Davidson was granted options to purchase 80,000 shares of common stock, all at $.35 per share with vesting contingent upon the Company raising an additional $3 million in financing subsequent to the October 2008 financing. To date there have been no stock issuance from these grants. In addition, Mr. Rice will receive one-time cash bonus of $46,000 and Mr. Davidson will receive one-time cash bonus of $23,000 when the Company raises an additional $3 million subsequent to the October 2008 financing and Mr. Gadbaw is currently receiving $2,000 per month until a total of $46,000 of accrued salary liability is paid to him. Because the bonus and stock option grants to Mr. Davidson and Mr. Rice are contingent on raising an additional $3 million, no accounting entry was made. The fair value of the equity instruments granted to Mr. Davidson and Mr. Rice was based on the funding price of $.35 per share for a total of $84,000.

NOTE 4 – INCOME TAXES

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

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

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

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

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

NOTE 5 –NOTES PAYABLE

The Company has a convertible debenture with Andcor Companies, Inc. ("Andcor") of $10,000 at 10.25% that matures in 2007. The debenture is convertible to the Company's common stock at $0.90 per share or the price per share at which the next equity financing agreement is completed. The convertible debenture has not yet been paid, and it is currently past due. The Company has had conversations with Andcor who understands our potential liquidity issues. While Andcor could demand payment on this note at any time, they have expressed an interest in working with us to wait until additional funds are secured by the Company. Further, Andcor has left open the possibility of converting the note into shares of the Company's common stock, which would require no cash outlay by the Company at this time.

NOTE 6 – LONG-TERM DEBT

Long-term debt is as follows:

	December 31,	
	2007	**2006**
Notes payable to several individuals due April 2008 including 8% fixed interest. The notes are convertible into 620,096 shares of the Company's common stock.	$ 170,000	$ —
Note payable to bank in monthly installments of $1,255/including variable interest at 2% above the prevailing prime rate (7.25% at December 31, 2007) to August 2011 when the remaining balance is payable. The note is personally guaranteed by executives of the Company.	48,308	49,900
Note payable to Development Corporation in interest only payments at 8% to December 2008 when the remaining balance is payable. The note is personally guaranteed by executives of the Company.	18,000	18,000
Notes payable to two individuals in interest only payments at 12% to March 2012 when the remaining balance is payable. The notes are convertible into shares of stock in the Company at a price equal to the next completed funding transaction by the Company.	100,000	—
Notes payable to four shareholders of the Company that are overdue. The notes are convertible into shares of stock in the Company at $1.00 per share.	4,000	—
Total	340,308	67,900
Less amount due within one year	203,800	20,500
Long-Term Debt	$ 136,508	$ 47,400

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

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

NOTE 7 – SUBSEQUENT EVENTS

Subsequent to year end 2007, the Company has received $1,582,696 before financing, commissions and other associated costs in a private placement offering.

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

On October 20, 2008, our board of directors approved a subsequent 1-for-1.33176963 reverse stock split. The authorized number of common stock of 15,942,607 was proportionately divided by 1.33176963 to 11,970,994.

On October 20, 2008, our board of directors also approved an increase in the authorized shares of our common stock from 11,970, 994 to 40,000,000. On December 3, 2008, our shareholders approved the increase in authorized shares of our common stock.

Part II

Item 24. Indemnification of Directors and Officers.

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

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

(1) has not been indemnified by another organization or employee benefit plan for the same judgments, penalties, fines, including, without limitation, excise taxes assessed against the person with respect to an employee benefit plan, settlements, and reasonable expenses, including attorneys' fees and disbursements, incurred by the person in connection with the proceeding with respect to the same acts or omissions;

(2) acted in good faith;

(3) received no improper personal benefit and Section 302A.255, if applicable, has been satisfied;

(4) in the case of a criminal proceeding, had no reasonable cause to believe the conduct was unlawful; and

(5) in the case of acts or omissions occurring in the person's performance in the official capacity of director or, for a person not a director, in the official capacity of officer, board committee member or employee, reasonably believed that the conduct was in the best interests of the corporation or, in the case of performance by a director, officer or employee of the corporation involving service as a director, officer, partner, trustee, employee or agent of another organization or employee benefit plan, reasonably believed that the conduct was not opposed to the best interests of the corporation. If the person's acts or omissions complained of in the proceeding relate to conduct as a director, officer, trustee, employee, or agent of an employee benefit plan, the conduct is not considered to be opposed to the best interests of the corporation if the person reasonably believed that the conduct was in the best interests of the participants or beneficiaries of the employee benefit plan.

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

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

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

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

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

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

(1) by the board by a majority of a quorum, if the directors who are at the time parties to the proceeding are not counted for determining either a majority or the presence of a quorum;

(2) if a quorum under clause (1) cannot be obtained, by a majority of a committee of the board, consisting solely of two or more directors not at the time parties to the proceeding, duly designated to act in the matter by a majority of the full board including directors who are parties;

(3) if a determination is not made under clause (1) or (2), by special legal counsel, selected either by a majority of the board or a committee by vote pursuant to clause (1) or (2) or, if the requisite quorum of the full board cannot be obtained and the committee cannot be established, by a majority of the full board including directors who are parties;

(4) if a determination is not made under clauses (1) to (3), by the affirmative vote of the shareholders required by Section 302A.437 of the Minnesota Statutes, but the shares held by parties to the proceeding must not be counted in determining the presence of a quorum and are not considered to be present and entitled to vote on the determination; or

(5) if an adverse determination is made under clauses (1) to (4) or under paragraph (b), or if no determination is made under clauses (1) to (4) or under paragraph (b) within 60 days after (i) the later to occur of the termination of a proceeding or a written request for indemnification to the corporation or (ii) a written request for an advance of expenses, as the case may be, by a court in this state, which may be the same court in which the proceeding involving the person's liability took place, upon application of the person and any notice the court requires. The person seeking indemnification or payment or reimbursement of expenses pursuant to this clause has the burden of establishing that the person is entitled to indemnification or payment or reimbursement of expenses.

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

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

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

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

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

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

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

Item 25. Other Expenses of Issuance and Distribution.

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

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

Item 26. Recent Sales of Unregistered Securities.

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

On August 22, 2005, we issued options to purchase 17,957 shares of our common stock at $1.67 per share to a member of our board of directors, Thomas McGoldrick, for his services as a director. The options were grantable annually at 10,000 per year starting in 2008. This transaction was effected under Rule 701 promulgated under the Act on the basis that the transaction was pursuant to a contract relating to compensation provided under Rule 701. The recipient of securities in this transaction represented his intentions to acquire the securities for investment only and not with a view towards distribution thereof. He had access, through his relationship with the Company, to information about us.

On August 31, 2005, we issued warrants to purchase 2,993 shares of our common stock at $1.67 per share to each of three members of our Medical Advisory Board, Debbie Heitzman, Mary Wells Gorman and David Feroe, for their services on the Medical Advisory Board.

On December 14, 2005, we issued 7,482 shares of common stock to officers Lawrence Gadbaw and Gerald Rice for personal guarantees on Company loans.

On May 16, 2006, we issued 71,906 shares of our common stock to the inventor of our intellectual property, Marshall Ryan, for the development work he performed with respect to our product.

On June 12, 2006, we issued warrants to purchase 35,913 shares of our common stock at $.02 per share to Dr. Arnold Leonard for his services on the Medical Advisory Board. The warrant agreement contained an anti-dilution clause that would add another 35,913 shares upon any large, dilutionary offering. The second warrants to purchase 35,913 shares of our common stock were granted to Mr. Leonard in June 2008 when we achieved 2 million in outstanding shares of common stock through the October 2008 financing.

On August 8, 2006, we issued 14,964 shares of our common stock to Andcor Companies, Inc. in partial payment of an invoice. Also in 2006, we issued warrants to purchase 5,985 shares of common stock at $1.67 per share to Andcor Companies, Inc. as part of a convertible loan agreement.

On August 22, 2006, pursuant to a stock option agreement with Thomas McGoldrick, a member of our board of directors, we issued options to purchase 5,986 shares of our common stock at $.46 per share to Mr. McGoldrick. This transaction was effected under Rule 701 promulgated under the Act on the basis that the transaction was pursuant to a contract relating to compensation provided under Rule 701. The recipient of the securities in this transaction represented his intentions to acquire the securities for investment only and not with a view towards distribution thereof. He had access, through his relationship with the Company, to information about us.

On October 4, 2006, we entered into an employment agreement with Kevin Davidson, our Chief Executive Officer. As part of this agreement, we agreed to issue 50,000 shares of our common stock to Mr. Davidson. The grant under the employment agreement contained an anti-dilution protection amounting to 3.81% of the fully-diluted outstanding common stock of the Company up to the completion of the first $1,000,000 raised by the Company. On June 5, 2008, pursuant to a stock option agreement with the Company, which amended Mr. Davidson's employment agreement, Mr. Davidson opted to receive options to purchase 543,292 shares of common stock, exercisable at $.01, in lieu of obtaining the shares to which he was entitled under his employment agreement.

On October 23, 2006, we issued 8,979 shares of our common stock to a former employee as a part of his compensation package in his employment agreement. This transaction was effected under Rule 701 promulgated under the Act on the basis that the transaction was pursuant to a contract relating to compensation provided under Rule 701. The recipient of securities in this transaction represented his intentions to acquire the securities for investment only and not with a view towards distribution thereof. He had access, through his relationship with the Company, to information about us.

On November 11, 2006, we issued options to purchase 17,957 shares of our common stock at $1.67 per share to a member of our board of directors, Andrew Reding, for his services as a director. The options were grantable annually at 10,000 per year starting in 2007. This transaction was effected under Rule 701 promulgated under the Act on the basis that the transaction was pursuant to a contract relating to compensation provided under Rule 701. The recipient of securities in this transaction represented his intentions to acquire the securities for investment only and not with a view towards distribution thereof. He had access, through his relationship with the Company, to information about us.

On December 1, 2006, we fully repaid two of our three loans due to Wisconsin Rural Enterprise Fund ("WREF"). As of December 2006 the total principal due was $37,500. To pay the outstanding loan to WREF, the Company issued warrants to purchase 20,949 shares of common stock at $1.67 per share to WREF.

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

On December 7, 2006 and December 20, 2006 we issued warrants to purchase 2,993 shares of our common stock at $1.67 per share to each of Karen Ventura, Nancy Kolb and Kim Shelquist for their sales and marketing advisory services.

On January 30, 2007 we fully repaid a Company loan of $1,000 due one of our former employees by issuing him 599 shares of our common stock.

In February 2007, Messrs. Davidson, Morawetz, Reding and McGoldrick loaned the Company $1,000 each and obtained a 8.25% convertible promissory note in the principal amount of $1,000. Each note matured on July 31, 2007 and the note was convertible into common stock at the lower of (i) $1.00 per share or (ii) the price of the sale of common stock the next financing which ultimately was $0.35 per share.

On March 1, 2007, we entered into a convertible debenture agreement with two payees, Roy Moore and Carl Moore, who loaned us $50,000 each, whereby we granted warrants to purchase up to an aggregate of 28,502 to them at $.46 per share. There were no special terms contained in the warrant other than that the two individuals would pay a per share price equal to that of the October 2008 financing when exercising their warrants.

On July 23, 2007, we entered into a convertible debenture with certain investors who loaned us $170,000. Such securities are convertible into 620,096 shares and the lenders were also entitled to receive warrants to purchase 620,096 shares at 0.35 per share. The Company will issue the warrants by the end of January 2009.

From July 2007 to October 2008, we issued 4,552,862 shares of our common stock at a price per share of $0.35 to a number of investors pursuant to a private placement, and raised gross proceeds of approximately $1.6 million. The transaction was a unit offering, pursuant to which each investor received a unit comprised of one share of common stock and one warrant to purchase common stock at $0.46 per share. Thirty-three investors, including one of our officers, Chad Ruwe, participated in the transaction, which we completed in October 2008. The transaction is described further in "Description of Business" Section. This transaction was in reliance upon the exemption from registration set forth in Rule 506 of Regulation D. Each and all of the investors in this financing qualified as an "accredited investor," as that term is defined in the Act. The following conditions were all met with respect to this transaction: (1) the registrant did not advertise this issuance in any public medium or forum; (2) the registrant did not solicit any investors with respect to this issuance; (3) the registrant did not publicize any portion of the purchase or sale of the shares issued; (4) none of the shares issued were offered in conjunction with any public offering; and (5) neither the registrant nor the investors paid any fees to any finder or broker-dealer in conjunction with this issuance. In July 2007, we entered into a binding term sheet with a consultant pursuant to which the consultant would assist us in obtaining bridge financing and subsequent equity financing and such term sheet provided that the consultant and its assigns would receive 13.3% of the Company's anticipated issued and outstanding common stock following the proposed bridge and equity financing on a fully-diluted basis. The parties subsequently agreed that we would issue 2,001,119 shares to such parties in satisfaction of such obligation.

On November 11, 2007, pursuant to a stock option agreement with Andrew Reding, a member of our board of directors, we issued options to purchase 5,986 shares of our common stock at $.46 per share to Mr. Reding. This transaction was effected under Rule 701 promulgated under the Act on the basis that the transaction was pursuant to a contract relating to compensation provided under Rule 701. The recipient of securities in this transaction represented his intentions to acquire the securities for investment only and not with a view towards distribution thereof. He had access, through his relationship with the Company, to information about us.

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

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

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

On June 16, 2008, we entered into an employment agreement with Chad Ruwe. As part of this agreement we issued him options to purchase 50,000 shares of our common stock. This transaction was effected under Rule 701 promulgated under the Act on the basis that the transaction was pursuant to a contract relating to compensation provided under Rule 701. The recipient of securities in this transaction represented his intentions to acquire the securities for investment only and not with a view towards distribution thereof. He had access, through his relationship with the Company, to information about us.

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

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

On August 15, 2008, we issued a warrant to purchase 75,000 shares of our common stock at $.46 per share to Taylor & Associates, Inc. for their HR services in selecting a Vice President of Sales and Marketing.

On August 26, 2008, we issued a warrant to purchase 50,000 shares of our common stock at $.46 per share to a regulatory consultant, Thomas Bachinski, for his past services.

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; (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 27. Exhibits.

EXHIBIT INDEX

3.1	Articles of Incorporation of the Registrant, as amended**
3.2	Bylaws of the Registrant, as amended**
5.1	Opinion of Richardson & Patel LLP***
10.1	Form of Employment Agreement by and between the Registrant and Kevin R. Davidson dated October 4, 2006**
10.2	Form of Employment Agreement by and between the Registrant and Gerald D. Rice dated October 18, 2006**
10.3	Form of Employment Agreement by and between the Registrant and Chad A. Ruwe dated June 16, 2008**
10.4	Form of Confidential Separation Agreement and Release by and between the Registrant and Lawrence W. Gadbaw dated August 13, 2008**
10.5	Form of Nondisclosure and Noncompete Agreement by and between the Registrant and Lawrence W. Gadbaw dated October 18, 2006**
10.6	Form of Stock Option Agreement by and between the Registrant and Kevin R. Davidson dated June 5, 2008**
10.7	Form of Director Stock Option Agreement between the Registrant and Thomas McGoldrick dated August 22, 2006**
10.8	Form of Director Stock Option Agreement between the Registrant and Andrew P. Reding dated November 11, 2006**
10.9	Form of Consulting Agreement by and between the Registrant and Jeremy Roll dated February 29, 2008**
10.10	Form of Consulting Agreement by and between the Registrant and Namaste Financial, Inc. dated June 30, 2008**
10.11	Form of Consulting Agreement by and between the Registrant and Marshall C. Ryan and Mid-State Stainless, Inc. dated June 2008**
10.12	Form of Investor Relations Agreement by and between the Registrant and Kulman IR, LLC dated April 15, 2008**
10.13	Form of Finder Agreement by and between the Registrant and Thomas Pronesti dated March 10, 2008**
10.14	Form of Patent Assignment by Marshall C. Ryan in favor of the Registrant dated June 18, 2008**
10.15	Form of Convertible Debenture by and between the Registrant and Kevin R. Davidson dated February 2, 2007**
10.16	Form of Convertible Debenture by and between the Registrant and Peter L. Morawetz dated February 2, 2007**
10.17	Form of Convertible Debenture by and between the Registrant and Andrew P. Reding dated February 2, 2007**
10.18	Form of Convertible Debenture by and between the Registrant and Thomas McGoldrick dated January 30, 2007**
10.19	Form of Convertible Debenture by and between the Registrant and Andcor Companies, Inc. dated September 29, 2006**
10.20	Form of Convertible Debenture by and between the Registrant and Carl Moore dated March 1, 2007**
10.21	Form of Convertible Debenture by and between the Registrant and Roy Moore dated March 1, 2007**
10.22	Form of Advisory Board Warrant Agreement by and between the Registrant and Debbie Heitzman dated August 31, 2005**
10.23	Form of Advisory Board Warrant Agreement by and between the Registrant and Mary Wells Gorman dated August 31, 2005**

10.24	Form of Advisory Board Warrant Agreement by and between the Registrant and David Feroe dated August 31, 2005**
10.25	Form of Advisory Board Warrant Agreement by and between the Registrant and Dr. Arnold S. Leonard dated June 12, 2006**
10.26	Form of Advisory Board Warrant Agreement by and between the Registrant and Karen A. Ventura dated December 7, 2006**
10.27	Form of Advisory Board Warrant Agreement by and between the Registrant and Nancy A. Kolb dated December 20, 2006**
10.28	Form of Advisory Board Warrant Agreement by and between the Registrant and Kim Shelquist dated December 20, 2006**
10.29	Form of Warrant Agreement by and between the Registrant and Wisconsin Rural Enterprise Fund, LLC dated December 1, 2006**
10.30	Form of Stock Purchase and Sale Agreement by and between the Registrant and Wisconsin Rural Enterprise Fund, LLC dated July 31, 2006**
10.31	Form of Subscription Agreement**
10.32	Form of Registration Rights Agreement**
10.33	Form of Escrow Agreement**
10.34	Form of Warrant**
10.35	2008 Equity Incentive Plan**
10.36	Office Lease Agreement by and between the Registrant and Roseville Properties Management Company, as agent for Lexington Business Park, LLC**
10.37	Form of Employment Agreement by and between the Registrant and David Dauwalter dated August 11, 2008*
10.38	Form of Amendment No. 1 to Employment Agreement by and between the Registrant and David Dauwalter dated September 11, 2008*
10.39	Form of Consulting Agreement by and between the Registrant and Andcor Companies, Inc. dated September 15, 2008*
10.40	Form of Consulting Agreement by and between the Registrant and Taylor & Associates, Inc. dated August 15, 2008*
10.41	Form of Consulting Agreement by and between the Registrant and Gregory Sachs dated October 20, 2008*
10.42	Form of Restructuring Agreement dated June 9, 2008*
10.43	Form of Secured Convertible Note Purchase Agreement dated July 23, 2007*
10.44	Form of Secured Convertible Note dated July 2007*
10.45	Form of Secured Convertible Note Security Agreement dated July 2007*
14	Code of Ethics*
21	Subsidiaries of the Registrant**
23.1	Consent of Olsen Thielen & Co., Ltd.*
23.2	Consent of Richardson & Patel LLP (See Exhibit 5.1)***

* Filed herewith.

** Previously filed

*** To be filed by amendment.

Item 28. Undertakings.

The undersigned registrant hereby undertakes:

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

   i. Include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

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

   iii. Include any additional or changed material information on the plan of distribution.

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

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

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

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons under the foregoing provisions or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. If a claim for indemnification against such liabilities (other than our payment of expenses incurred or paid by any of our directors, officers or controlling persons in the successful defense of any action, suit, or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by a controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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

SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-1 and authorized this registration statement to be signed on its behalf by the undersigned, in the City of Mendota Heights, State of Minnesota on January 12, 2009.

BIODRAIN MEDICAL, INC.

By: /s/ Kevin R. Davidson
Kevin R. Davidson
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints, jointly and severally, Kevin Davidson and Gerald Rice, and each of them, as his or her attorney-in-fact, with full power of substitution, for him or her in any and all capacities, to sign any and all amendments, including post-effective amendments, to this Registration Statement, and any and all registration statements related to the offering covered by this Registration Statement and filed under the Securities Act of 1933, as amended, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by his said attorney to any and all amendments to said registration statement.

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

Name	Title	Date
/s/ Lawrence W. Gadbaw Lawrence W. Gadbaw	Chairman of the Board of Directors	January 12, 2009
/s/ Kevin R. Davidson Kevin R. Davidson	President, Chief Executive Officer and director (Principal Executive Officer)	January 12, 2009
/s/ Gerald D. Rice Gerald D. Rice	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) and Secretary	January 12, 2009
/s/ Chad A. Ruwe Chad A. Ruwe	President, Chief Executive Officer and director (Principal Executive Officer)	January 12, 2009
/s/ Peter L. Morawetz Peter L. Morawetz	Director	January 12, 2009
/s/ Thomas J. McGoldrick Thomas J. McGoldrick	Director	January 12, 2009
/s/ Andrew P. Reding Andrew P. Reding	Director	January 12, 2009

August 11, 2008

EMPLOYMENT AGREEMENT

This Agreement made and entered into effective the 11th of August 2008 by and between David Dauwalter, an individual residing at 2686 Nightingale Court, Chaska, Minnesota 55318 ("Employee"), and BioDrain Medical Incorporated, 699 Minnetonka Highlands Lane, Orono, MN 55356-9728, a Minnesota corporation ("Company").

WITNESSETH:

WHEREAS, the Company desires to employ the Employee to render services for the Company as its Director of Sales and Marketing on the terms and conditions hereinafter set forth, and the Employee desires to be employed by the Company on such terms and conditions;

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

1. **Employment.** Upon execution of an investment in the Company secured by the Employee of $200,000, the Company agrees to employ the Employee for a period of one (1) year from the date of this Agreement: unless Employee violates the terms set forth in Paragraph 6: Termination by the Company for Cause or the Employee voluntarily resigns. The term is automatically renewable annually except by action of the President or the Board of Directors.

2. **Duties.** The Employee will hold the title of Director of Sales and Marketing and shall report to the President & CEO of the Company. The general scope of the Employee's duties shall include but not be limited to responsible for developing and implementing the overall market strategy and tactical plans to grow sales revenue and account penetration supporting the overall business strategy. Sales channel identification and establishment are key priorities including the advancement of the Company website and development of Company marketing collateral. The incumbent will be decisive, driven, hands-on and results-oriented. Market segmentation, positioning, branding, and business development will be additional responsibilities for the incumbent. The Director of Marketing and Sales will play a significant role in establishing and managing beta sites for the Company's product(s). Additionally, the incumbent will drive securing initial purchase orders and obtaining initial sales and sustaining growth in revenues from the Company's product(s).

   The Employee's duties may be modified from time to time by mutual agreement between the Employee and the President & CEO as they deem to be in the interest of the Company.

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

4. **Compensation.**

   a. Base Salary. $70,000 per year. Initial payment will be monthly and will be according to the Company's salary schedule. Employee will have an informal performance review in six (6) months and will receive annual salary reviews and potential increases, based on Employee's performance.

   b. Commission. The Employee will receive sales commission of 4% of sales that Employee directly managed. Commission to be paid on a monthly basis.

   c. Bonus. The Employee will be eligible for participation in the Company's bonus plan when completed and approved by the Board of Directors and the Compensation Committee.

   d. Stock Options. The Employee will receive total stock options to purchase 50,000 shares of the Company's common stock at $.35 per share. This will be governed by a Company Stock Option Plan ("Plan") to be established by the Company in a timely manner upon hiring of the Employee. The options will vest as follows: 10,000 shares upon execution of this Agreement, to be issued to Employee upon establishment of the Plan; the balance (40,000) in achievement of mutually agreed upon, specific milestones to be identified within thirty (30) days of execution of Agreement.

   The total of these options, assuming all milestones are achieved, will be 50,000, as described above.

5. **Additional Benefits.**

   a. Automobile. The Company shall reimburse the Employee for deductible automobile mileage according to its Expense Reporting Procedures.

   b. Business Expense. The Company will reimburse the Employee for all reasonable, deductible and substantiated business expenses per its Expense Reporting Procedures. This includes, but is not limited to such expenses as cell phones, and business meetings, etc.

   c. Benefits. The Employee will be eligible for the Company's benefits package effective on or about September 1, 2008.

   d. Vacation. The Employee will receive a minimum of two (2) weeks vacation per year.

   e. Education. The Company will support the Employee in his pursuit of continuing education provided sufficient cash flows support tuition reimbursement and he meets the conditions and terms of the tuition reimbursement guidelines as outlined in the Employee Manual when written.

6. **Non-Compete.** Throughout the period of Employee's employment with the Company, and thereafter for a period of one (1) year, Employee shall not, for any reason whatsoever, directly or indirectly, plan, organize, advise, own, manage, operate, control, be employed by, participate in or be connected in any manner with the ownership, management, operation or control of any business of the following type: the development, marketing and sales of medical devises dedicated or designed to safely manage and dispose of contaminated fluids generated in the operating room and other similar medical locations. For purposes of this Agreement, indirect competition shall be deemed to include any activity by Employee in aid of a competing Business, including but not limited to, being a partner, shareholder, officer, director, member, owner, manager, governor, agent, employee, advisor, consultant or independent contractor of any competing Business. Company is aware of Employee's relationship with Clean Door Systems, and, as long as this relationship does not interfere with Employee fully performing his duties for the Company, and there is no direct competition for Company customers or with the Company, Company agrees to permit the continued relationship.

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 sublicensees) to such non-assignable (or non-assigned) rights. To the extent any rights, title and interest in and to Intellectual Property rights can be neither assigned nor so licensed by Employee to Company, Employee hereby irrevocably waives and agrees never to assert such non-assignable and non-licensable rights, title and interest against Company, any of Company's successors in interest, and the customers and licensees of either. Further, Employee agrees to waive, and hereby waives, any "moral rights" Employee may have or may obtain in the Intellectual Property. Employee further agrees to assist Company in every proper way to apply for, obtain, perfect and enforce rights in the Intellectual Property in any and all countries, and to that end Employee will execute all documents for use in applying for, obtaining and perfecting such rights and enforcing same, as Company may desire, together with any assignments thereof to Company or persons designated by it. Employee appoints Company as its attorney in fact to execute any documents necessary to achieve such results. To the maximum extent possible, Company shall be shown in all documentation as the owner of all rights in the Intellectual Property

8. **Termination by Company for Cause.** The Company may terminate Employee's employment for "cause" at any time during the Term. For purposes of this section 8., the term "cause" shall mean any of the following:

    - The material non-compliance by the Employee with written instructions, directions or regulations of the Board of Directors applicable to Employee, the breach by Employee of any material term of this Agreement, or the unsatisfactory performance by Employee of Employee's duties, obligations, work and production standards, and the failure of Employee to correct such non-compliance, breach or unsatisfactory performance within thirty (30) days after receipt by Employee of written notice of the same by the Company;

- Any willful or grossly negligent act by the Employee having the effect of injuring in a material way the Company as determined by the affirmative vote of the majority of the members of the Board of Directors (excluding Employee);

- The commission by the Employee of fraud or a criminal act that adversely affects the business of the Company; or,

- The determination by an affirmative vote of the majority of the members of the Board of Directors (excluding Employee), after a reasonable and good faith investigation by the Company following a written allegation by another employee of the Company, that Employee engaged in some form of harassment or other improper conduct prohibited by law, unless such actions were specifically directed by the Board.

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

9. **Termination by Company without Cause.** In the event the Employee's employment is terminated by the Company without cause, as "cause" is defined in section 8 hereof, Employee shall be entitled to receive from the Company as severance pay in an amount equal to three (3) months of Employee's Base Salary then in effect at the time of termination, payable in three (3) equal monthly installments, commencing on the first day of the month following termination and continuing on the same day of each month thereafter until paid in full. The Employee shall receive bonus payment on a pro-rata basis for the portion of the fiscal year at termination. The consideration provided in this section is conditioned upon the Employee's return to the Company of any and all property belonging to the Company in Employee's possession or control and Employee's disclosure to the Company of any information known to Employee and necessary for the Company to access any computer software or programs of the Company controlled by Employee. In lieu of a Shareholders Agreement all non-vested stock options shall immediately be vested.

10. **Termination by Employee for Good Reason**. Employee may terminate his employment at any time during the Term for good reason. For purposes of this Agreement, "good reason" shall mean (i) any material breach by the Company of this Agreement that is not cured by the Company within thirty (30) days after receipt of written notice from Employee of such material breach, (ii) any material diminution or adverse (to Employee) change in the duties, responsibilities, rights, privileges or the reporting relationships, which were applicable to and enjoyed by the Employee at the time of such diminution of change, without the consent of the Employee, except as a result of the termination of Employee's employment by the Company as provided in section 8. hereof, or (iii) any requirement from the Board of Directors that the Employee must relocate his office outside the Twin Cities metropolitan area. In the event of a termination by Employee of his employment as provided in this section 10, Employee shall be entitled to severance pay and benefits as provided in section 9 hereof**.**

11. **Termination by Employee.** Employee may terminate employment at any time during the Term for any reason with one (1) month notice. Employee agrees to aid in transition and exit from the Company causing no harm or hardship during such transition. Employee is bound by Paragraph 6 of this Agreement. Employee is not eligible for salary continuation or bonus or additional stock option vesting if he voluntarily resigns for reasons other than "good reason" as defined in section 10.

12. **Sale, Reorganization or Transfer of Ownership.** In the event the Company is sold, or if majority ownership of the Company should pass from the existing majority shareholders, the terms of this Agreement shall remain in force. Terms of all executive employment agreements will identify the specifics for sale, reorganization or transfer of ownership, to be approved by the Compensation Committee. All non-vested stock options, whether milestone has been achieved or not, shall become vested with the completion of the sale.

13. **Insolvency or Cessation of Business.** In the event the Company becomes insolvent or ceases business due to lack of funds, this Agreement is immediately null and void and the terms and conditions are rendered non-enforceable, specifically those clauses associated with non-disclosure and non-competition.

14. **Governing Law.** This agreement will be governed by and construed in accordance with the laws of the State of Minnesota.

15. **Notices.** Any notice or other communication required or permitted hereunder shall be in writing and shall be deemed to have been given, when received, if delivered by hand or by telegram, or three (3) working days after deposited, if placed in the mails for delivery by certified mail, return receipt requested, postage prepaid and addressed to the appropriate party at the following address:

Company: BioDrain Medical Inc.
Attention: Kevin R. Davidson President & CEO
16771 Ironwood Circle
Lakeville, MN 55044

Employee: David Dauwalter
2686 Nightingale Court
Chaska, MN 55318

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) wo days after depositing in the mails or when actually received, whichever occurs first.

16. **Other Agreements.** This Agreement contains the entire agreement between the parties concerning terms of employment and supersedes at the effective date hereof any other agreement, written or oral.

17. **Parties and Interest.** This Agreement is personal to Executive, and Executive may not delegate his duties or assign his rights hereunder. This Agreement shall inure to the benefit of, and be binding upon, the parties hereto and their respective heirs, legal representatives, successors and permitted assigns.

18. **Modification and Waiver.** A waiver by either party of a breach of any provision of this Agreement shall not operate as or be construed as a waiver of any subsequent breach thereof.

19. **Binding Effect, Assigns, Successors, Etc.** This Agreement shall be binding upon the parties hereto and their respective heirs, representatives, successors and assigns, and shall continue in full force unless and until terminated by the mutual agreement of all parties hereto.

20. **Savings Clause.** If any provision, portion or aspect of this Agreement is determined to be void, or voidable by any legislative, judicial or administrative action as properly applied to this Agreement, then this Agreement shall be construed to so limit such provision, portion or aspect thereof to render same enforceable to the greatest extent permitted by or in the relevant jurisdiction.

21. **Headings.** The headings of this Agreement are intended solely for convenience and reference, and shall give no effect in the construction or interpretation of this Agreement.

22. **Survival.** Employee understands and agrees that portions of the provisions of this Agreement extend beyond termination of the Employee's employment and shall continue in full force and effect after such termination of employment or termination of this Agreement.

23. **Execution.** This Agreement may be executed in two (2) or more counterparts, and each such counterpart deemed an original. Original signatures on copies of the Agreement transmitted by facsimile will be deemed originals for all purposes hereunder.

24. **Confidential.** Company and Employee agree to keep the terms and conditions of this Agreement confidential during the terms of the Agreement and for one (1) years after termination of Agreement.

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

BioDrain Medical Incorporated

By: /s/ Kevin R. Davidson
Kevin R. Davidson, President & CEO

By: /s/ David Dauwalter
David Dauwalter, Employee

EXHIBIT 10.38

(DATE) September 11, 2008

AMENDMENT TO EMPLOYMENT AGREEMENT

The Agreement dated August 11, 2008 by and between David Dauwalter and BioDrain Medical, Inc. has been amended as follows:

4 d. Stock Options line 4 shall be changed to read: "The options will vest as follows: 10,000 shares upon execution of this Agreement, to be issued to Employee upon establishment of the Plan; the balance (40,000) will vest upon achievement of the following specific milestones:

- An additional 10,000 shares to vest upon approval of the 510(k) by the FDA,
- An additional 10,000 shares to vest upon the establishment of four (4) beta site approvals via purchase order, letter of intent or testimonial Please revise as appropriate
- An additional 10,000 shares to vest upon the sale of the first commercial-ready FMS unit,
- An additional 10,000 shares to vest upon the sale of the 50th commercial-ready FMS unit."

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

BioDrain Medical Incorporated

By: /s/ Kevin R. Davidson
Kevin R. Davidson, President & CEO

By: /s/ David J. Dauwalter
David J. Dauwalter

EXHIBIT 10.39

Mr. Ty Anderson
Andcor Companies, Inc.
294 Grove Lane E., Suite 170
Wayzata, MN 55391

September 15, 2008

Dear Ty:

This is to confirm that BioDrain Medical, Inc. (the "Company") has approved an agreement between the Company and Andcor Companies, Inc. to issue a warrant to purchase 75,000 shares of the Company's stock in conjunction with your efforts relating to the search for the Company's Vice President of Sales & Marketing position. The warrants will have a price of $.46 per share, will have a five year term, and they will be issued to you upon the commencement of Kirsten Doerfert's employment with the Company. Standard Andcor guarantees will apply to the issuance of the warrants if Ms. Doerfert should not remain employed with the Company for at least one year from here commencement date, currently scheduled for February 1, 2009. If this meets with your understanding, please sign and return to me at your earliest convenience.

Ty, we appreciate your continued support and look forward to fulfilling all of our obligations to your firm. Thank you.

Sincerely,

/s/ Kevin R. Davidson
Kevin R. Davidson
President & CEO

/s/ Ty Anderson
Ty Anderson
Andcor Companies, Inc.

EXHIBIT 10.40

Mr. Jimmy Taylor
JT & Associates, Inc.
2645 Shumard Oak Dr.
Braselton GA, 30517

August 15, 2008

Dear Jimmy:

This is to confirm that BioDrain Medical, Inc. (the "Company") has approved an agreement between the Company and JT& Associates to issue a warrant to purchase 75,000 shares of the Company's stock in conjunction with our verbal agreement with you relating to the search for the Vice President of Sales and Marketing position. The warrants will be priced at $.46 per share, will have a five-year term and will be subject to the Company's standard Warrant Agreement, which will be issued to you upon commencement of the candidate's employment with the Company. If this meets with your understanding, please sign and return to me at your earliest convenience.

Jimmy, we appreciate your continued support and look forward to working with you in the future. Thank you.

Sincerely,

/s/ Kevin R. Davidson
Kevin R. Davidson
President & CEO

/s/ Jimmy Taylor
Jimmy Taylor
JT & Associates, Inc.

BioDrain Medical, Incorporated
2060 Centre Pointe Boulevard | Suite 7 | Mendota Heights, Minnesota, USA 55120-1269
Phone: +1-651-389-4800 | fax: +1-651-389-4801 | www.biodrainmedical.com

Mr. Gregory W. Sachs
Sachs & Associates, Inc.
5116 Birch Road
Minnetonka, MN 55345

October 20, 2008

Dear Greg,
This is to confirm that the Board of Directors of BioDrain Medical, Inc. (the "Company") has approved a warrant purchase incentive plan for you. As we have discussed, if you assist the Company in obtaining FDA 510(k) approval for our Fluid Management System ("FMS") by specific dates, we will provide you with warrants to purchase the Company's stock. These will be our standard warrants which have a five-year life from the issue date and currently, for this entire incentive plan, will have a strike price of $.46 per share. If you receive any warrants as a result of this plan, we will provide you with our standard warrant agreement.

The dates and shares for this plan are as follows:

If the Company receives FDA 510(k) approval for the FMS by:	**You will receive:**
4/1/09	50,000 warrants
After 4/1/09 but on or before 5/1/09	25,000 warrants
After 5/1/09 but on or before 6/30/09	10,000 warrants
After 6/30/09	No warrants

These are not cumulative and only apply to the specific period of FDA approval. Example, if the Company receives FDA approval on 4/15/09, you will receive a total of 25,000 warrants.

Greg, we continue to appreciate your efforts with BioDrain and hope that we can help each other by obtaining a rapid FDA approval. Let me know if you have any questions. Otherwise, we will talk again soon.

Sincerely,

Kevin R. Davidson
President & CEO

BioDrain Medical, Incorporated
2060 Centre Pointe Boulevard . Suite 7 Mendota Heights, Minnesota, USA 55120-1269
Phone: +1-651-389-4800 fax: +1-651-389-4801 . www.biodrainmedical.com

EXHIBIT 10.42

BIODRAIN MEDICAL, INC.
699 Minnetonka Highlands Lane
Orono, Minnesota 55356-9728.
(612) 850-9460

June 9, 2008

To: Current BioDrain Medical, Inc. equityholders

RE: 510(K) APPROVAL AND STOCK ISSUANCE

Dear Current Equityholder:

As you may know, BioDrain Medical, Inc., a Minnesota corporation ("BioDrain" or the "Company"), will be closing an equity financing of more than $800,000 and no less than $1.2 million this week ("Offering") with certain investors ("Investors"). With a portion of the proceeds of this financing, BioDrain will complete preparation and submit its 510(K) filing with the Food and Drug Administration for its primary product, the Fluid Management Systems, as a Class II product.

Management and the Investors expect that the FDA will approve this application within 12 months. However, upon the earlier to occur of the FDA (i) rejects the application or (ii) does not approve the application within 12 months, then the Investors holding a majority of common stock ("Majority-in-Interest Investors") sold during that Offering shall at any time be able to cause the Company to take the following events to occur upon their election.

1. All Company assets shall be distributed to a wholly-owned subsidiary ("Privco"). Privco will have the identical number of common shares outstanding as the Company.

2. Current Equityholders, including you, will cancel all Company stock, options, and warrants you hold and no longer own any Company equity.

3. In consideration of such cancellation, you will receive Privco stock and options so that you have the same percentage ownership of Privco that you had in the Company. Company will retain the rest of Privco equity.

4. All your Company stock options, warrants, convertible debt (if any) will be cancelled and replaced with Privco stock options, warrants and convertible debt at substantially same terms of the Company securities.

5. Company will have new directors and officers selected by Investors.

Your stock certificate will be required to include a separate legend until this restriction lapses in 12 months. The legend shall state the stock certificate may not be sold or otherwise transferred until the restriction has terminated. The Majority-in-Interest Investors are a third party beneficiary to this acknowledgement and this letter agreement may not be amended without their consent.

Very truly yours,

BIODRAIN MEDICAL

By:/s/ Kevin Davidson
Kevin Davidson, President

On behalf of the holder of BioDrain common stock, options, warrants or convertible debt, I have read the above letter and agree to its terms.

Date: _____

Shareholder Name: _____

Shareholder Signature: _____

Title: _____
(if shareholder is an entity, such as a partnership, corporation or trust)

EXHIBIT 10.43

SECURED CONVERTIBLE NOTE PURCHASE AGREEMENT

This SECURED CONVERTIBLE NOTE PURCHASE AGREEMENT is made as of this 23th day of July, 2007 by and between BioDrain Medical, Inc., a Minnesota corporation (the "Company") and the Purchasers identified in Schedule A (hereinafter collectively referred to as the "Purchasers" or the "Buyers") including Core Fund Management, L.P. ("Core Fund").

ARTICLE I

PURCHASE, SALE AND TERMS OF NOTES

1.01. The Notes. The Company has authorized the issuance and sale to the Purchasers of the Company's Secured Convertible Notes, due April __, 2008, in the original aggregate principal amount of $150,000.00. The Secured Convertible Notes shall be substantially in the form set forth in Exhibit 1.01 hereto and are herein referred to individually as a "Note" and collectively as the "Notes", which terms shall also include any notes delivered in exchange or replacement therefor. The Notes shall be secured under the terms of the Security Agreement. The Company intends to complete an equity financing of approximately $1.5 million. The Notes shall be convertible into shares of the common stock ("Common Stock") of the Company and warrants to purchase shares of Company common stock upon the terms set forth in the Notes. Any references herein to "Notes" shall be a reference to a single Note, in the event only one Note in the aggregate amount of $150,000 is issued and sold by the Company hereunder.

1.02. Purchase and Sale of Notes.

(a) The Closing. The Company agrees to issue and sell to the Purchasers, and, subject to and in reliance upon the representations, warranties, terms and conditions of this Agreement, the Purchasers agree to purchase, the Notes for an aggregate purchase price of $150,000. Such purchase and sale shall take place at a closing (the "Closing") to be held at the offices of Richardson & Pate LLP, 10900 Wilshire Boulevard, Suite 500, Los Angeles, CA 90024 at 1:00 P.M., or on such other date and at such time as may be mutually agreed upon.

(b) Use of Proceeds. The Company agrees to use the full proceeds from the sale of the Notes solely for general working capital net of a retainer of legal fees to Richardson & Patel LLP of $15,000 and fees to Longport of 10% of gross proceeds.

1.03. Payments and Endorsements. Payments of principal, interest and premium, if any, on the Notes, shall be made directly by check duly mailed or delivered to the Purchasers at the addresses provided by Purchasers from time to time.

1.04. Payment on Non-Business Days. Whenever any payment to be made shall be due on a Saturday, Sunday or a public holiday under the laws of the State of Minnesota, such payment may be made on the next succeeding business day, and such extension of time shall in such case be included in the computation of payment of interest due.

1.05. Representations by the Purchasers. The Purchasers represent, severally and not jointly, that it is each Purchaser's present intention to acquire the Notes for their own account and that the Notes are being and will be acquired for the purpose of investment and not with a view to distribution or resale thereof; subject, nevertheless, to the condition that the disposition of the Notes or shares underlying the Notes shall at all times be within each Purchaser's control.

ARTICLE II

CONDITIONS TO PURCHASERS' OBLIGATION

The obligation of the Purchasers to purchase and pay for the Notes at the Closing is subject to the following conditions:

2.01. Representations and Warranties. Each of the representations and warranties of the Company set forth in Article III hereof shall be true on the date of the Closing.

2.02. Documentation at Closing. The Purchasers shall have received prior to or at the Closing all of the following, each in form and substance satisfactory to the Purchasers and its special counsel:

(a) A Security Agreement, in the form attached as Exhibit 2.02(a), (the "Security Agreement"), and all related financing statements and other similar instruments and documents, shall have been executed and delivered to the Purchasers by a duly authorized officer of the Company.

(b) A certificate of good standing from the Minnesota Secretary of State certifying that the Company is in good standing under the laws of the State of Minnesota.

(c) The Notes in the form attached as Exhibit 2.02(o).

ARTICLE III

REPRESENTATIONS AND WARRANTIES

The Company represents and warrants as follows:

3.01. Organization and Standing of the Company. The Company is a duly organized and validly existing corporation in good standing under the laws of the jurisdiction in which it was organized and has all requisite corporate power and authority for the ownership and operation of its properties and for the carrying on of its business as now conducted and as now proposed to be conducted. The Company has no Subsidiaries.

3.02. Corporate Action. The Company has all necessary corporate power and has taken all corporate action required to make all the provisions of this Agreement, the Security Agreement, the Notes and any other agreements and instruments executed in connection herewith and therewith the valid and enforceable obligations they purport to be. The issuance of the Notes is not subject to preemptive or other similar statutory or contractual rights and will not conflict with any provisions of any agreement or instrument to which the Company is a party or by which it is bound.

3.03. Governmental Approvals. No authorization, consent, approval, license, exemption of or filing or registration with any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, is or will be necessary for, or in connection with, the offer, issuance, sale, execution or delivery by the Company of, or for the performance by it of its obligations under, this Agreement, the Security Agreement or the Notes.

3.04. Litigation. There is no litigation or governmental proceeding or investigation pending or, to the best of the knowledge of the Company, threatened against the Company affecting any of its properties or assets, or against any officer, key employee or principal stockholder of the Company where such litigation, proceeding or investigation, either individually or in the aggregate, would have a material adverse effect on the Company. Neither the Company, nor, to the best of the knowledge of the Company, any officer or key employee of the Company, or principal stockholder of the Company, is in default with respect to any order, writ, injunction, decree, ruling or decision of any court, commission, board or other government agency affecting the Company.

3.05. Compliance with Other Instruments. The Company is in compliance in all respects with the terms and provisions of its charter and by-laws and in all material respects with the terms and provisions of the mortgages, indentures, leases, agreements and other instruments and of all judgments, decrees, governmental orders, statutes, rules and regulations by which it is bound or to which its properties or assets are subject.

3.06. Title to Assets, Trademarks, Patents. The Company has good and clear record and marketable title in fee to such of its fixed assets as are real property, and good and merchantable title to all of its other assets, now carried on its books including those reflected in the most recent balance sheet of the Company or acquired since the date of such balance sheet (except personal property disposed of since said date in the ordinary course of business) free of any mortgages, pledges, charges, liens, security interests or other encumbrances. The Company enjoys peaceful and undisturbed possession under all leases under which it is operating, and all said leases are valid and subsisting and in full force and effect. The Company owns or has a valid right to use the patents, patent rights, licenses, permits, trade secrets, trademarks, trademark rights, trade names or trade name rights or franchises, copyrights, inventions and intellectual property rights being used to conduct its business as now operated and as now proposed to be operated; and the conduct of its business as now operated and as now proposed to be operated does not and will not conflict with valid patents, patent rights, licenses, permits, trade secrets, trademarks, trademark rights, trade names or trade name rights or franchises, copyrights, inventions and intellectual property rights of others.

3.07. Taxes. The Company has accurately prepared and timely filed all federal, state and other tax returns required by law to be filed by it, and all taxes shown to be due and all additional assessments have been paid or provision made therefor. The Company knows of no assessments or adjustments pending or threatened against the Company for any period, nor of any basis for any such assessment or adjustment.

3.08. Insurance. The Company carries insurance covering its properties and business adequate and customary for the type and scope of the properties and business, but in any event in amounts sufficient to prevent the Company from becoming a co-insurer.

3.09. Books and Records. The books of account, ledgers, order books, records and documents of the Company accurately and completely reflect all material information relating to the business of the Company, the nature, acquisition, maintenance, location and collection of the assets of the Company, and the nature of all transactions giving rise to the obligations or accounts receivable of the Company.

3.10 Other Debt. The Company has no other secured or unsecured debt, other than obligations incurred in the ordinary course of its business.

ARTICLE IV

COVENANTS OF THE COMPANY

4.01. Affirmative Covenants of the Company . Without limiting any other covenants and provisions hereof, the Company covenants and agrees that, as long as any of the Notes are outstanding, it will perform and observe the following covenants and provisions:

(a) Punctual Payment. Pay the principal of, premium, if any, and interest on each of the Notes at the times and place and in the manner provided in the Notes and herein.

(b) Payment of Taxes and Trade Debt. Pay and discharge all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or business, or upon any properties belonging to it, prior to the date on which penalties attach thereto, and all lawful claims which, if unpaid, might become a lien or charge upon any properties of the Company, provided that neither the Company shall be required to pay any such tax, assessment, charge, levy or claim which is being contested in good faith and by appropriate proceedings if the Company shall have set aside on its books adequate reserves with respect thereto. Pay when due, or in conformity with customary trade terms, all lease obligations, all trade debt, and all other Indebtedness incident to the operations of the Company, except such as are being contested in good faith and by appropriate proceedings if the Company concerned shall have set aside on its books adequate reserves with respect thereto.

(c) Maintenance of Insurance. Maintain insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which the Company operates, but in any event in amounts sufficient to prevent the Company from becoming a co-insurer.

(d) Preservation of Corporate Existence. Preserve and maintain its corporate existence, rights, franchises and privileges in the jurisdiction of its incorporation. Preserve and maintain all licenses and other rights to use patents, processes, licenses, trademarks, trade names, inventions, intellectual property rights or copyrights owned or possessed by it and necessary to the conduct of its business.

(e) Compliance with Laws. Comply with all applicable laws, rules, regulations and orders of any governmental authority, noncompliance with which could materially adversely affect its business or condition, financial or other.

(f) Keeping of Records and Books of Account. Keep adequate records and books of account, in which complete entries will be made in accordance with generally accepted accounting principles consistently applied, reflecting all financial transactions of the Company a and in which, for each fiscal year, all proper reserves for depreciation, depletion, obsolescence, amortization, taxes, bad debts and other purposes in connection with its business shall be made.

(g) Maintenance of Properties, etc. Maintain and preserve all of its properties, necessary or useful in the proper conduct of its business, in good repair, working order and condition, ordinary wear and tear excepted.

(h) Equity Financing. On or before 100 days from the date of this Agreement, the Company will conduct an equity financing ("Equity Financing") or similar transaction approved by Core Fund. If such a transaction is not consummated within the fixed term of the Notes, then the Company shall owe a one-time cash payment equal to 10% of the principal amount of the Notes in addition to the principal and interest then owing. In connection with the Equity Financing, ownership of company shareholders shall reflected in the target capitalization table in Exhibit 3.03, on a fully diluted post equity financing basis. Should the final fully-diluted, post-equity financing capitalization of the Company result in additional outstanding shares, warrants, options or other equity linked securities compared to the proposed capitalization set forth in Exhibit 3.03, the amount of Company shares shall be adjusted accordingly to reflect 10% of the surviving corporation's common stock on a fully-diluted, post-Equity Financing basis.

(i) Registration of Shares. The Company shall include the shares issuable upon conversion of the Note including in a Registration Statement filed within 120 days after closing of the Equity Financing and use its best efforts to have the Registration Statement declared effective as soon as possible. In the event the Company does not file the required Registration Statement within 120 days after the closing of the Equity Financing, then the Company shall pay to the Purchasers a one-time payment equal to $25,000. In the event the Registration Statement is not declared effective within 180 days of the closing of the Equity Financing, the Company shall pay an amount equal to an additional $5,000 each month until the Registration Statement is declared effective, or until such time as Rule 144 is available for sale of the shares, whichever is first.

(j) Conversion of Note. The Notes are contemplated as a bridge loan to an equity financing of approximately $1,500,000 in conjunction with a going public transaction pursuant to a reverse merger or similar transaction. At the closing of such financing and reverse merger, this Note shall automatically convert into shares of Company common stock at $0.17 per share and 882,353 warrants to purchase Company common stock at $0.42 per share.

(k) No Refinancing. The Company cannot call, refinance, or repay the Notes prior to consummation of the Reverse Merger.

ARTICLE V

EVENTS OF DEFAULT

5.01. Events of Default. If any of the following events ("Events of Default") shall occur and be continuing:

(a) The Company shall fail to pay any installment of principal of any of the Notes when due; or

(b) The Company shall fail to pay any interest or premium on any of the Notes when due and such failure shall continue for five (5) business days; or

(c) The Company shall default in the performance of any covenant contained in this Agreement or the Security Agreement; or

(d) Any representation or warranty made by the Company this Agreement or the Security Agreement or by the Company in any certificate, instrument or written statement contemplated by or made or delivered pursuant to or in connection with this Agreement, shall prove to have been incorrect when made in any material respect.

ARTICLE VI

DEFINITIONS AND ACCOUNTING TERMS

6.01. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

“Agreement” means this Secured Convertible Note Purchase Agreement as from time to time amended and in effect between the parties.

“Company” means and shall include BioDrain Medical, Inc., and its successors and assigns.

“Notes” shall have the meaning assigned to that term in Section 1.01.

“Person” means an individual, corporation, partnership, joint venture, trust, or unincorporated organization, or a government or any agency or political subdivision thereof.

“Purchaser” means and shall include the Purchasers identified in Schedule A.

“Securities Act” means the Securities Act of 1933 or any similar Federal statute, and the rules and regulations of the Securities and Exchange Commission (or of any other Federal agency then administering the Securities Act) thereunder, all as the same shall be in effect at the time.

“Subsidiary” or “Subsidiaries” means any corporation or trust of which the Company and/or any of its other Subsidiaries (as herein defined) directly or indirectly owns at the time all of the outstanding shares of every class of such corporation or trust other than directors’ qualifying shares.

6.02. Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles consistent with those applied in preparation of financial statements in the United States.

ARTICLE VII

MISCELLANEOUS

7.01. No Waiver; Cumulative Remedies. No failure or delay on the part of the Purchaser, or any other holder of the Notes in exercising any right, power or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy hereunder. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

7.02. Amendments, Waivers and Consents. Any provision in this Agreement the Notes to the contrary notwithstanding, changes in or additions to this Agreement may be made, and compliance with any covenant or provision herein or therein set forth may be omitted or waived, if the Company (i) shall obtain consent thereto in writing from the holder or holders of at least seventy-five percent (75%) in principal amount of all Notes then outstanding, and (ii) shall, in each case, deliver copies of such consent in writing to any holders who did not execute the same; provided that no such consent shall be effective to reduce or to postpone the date fixed for the payment of the principal (including any required redemption) or interest payable on any Note, without the consent of the holder thereof, or to reduce the percentage of the Notes the consent of the holders of which is required under this Section. Any waiver or consent may be given subject to satisfaction of conditions stated therein and any waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. Written notice of any waiver or consent effected under this subsection shall promptly be delivered by the Company to any holders who did not execute the same.

7.03. Addresses for Notices, etc. All notices, requests, demands and other communications provided for hereunder shall be in writing (including telegraphic communication) and mailed via certified mail or by courier delivery and delivered to the applicable party at the addresses indicated below:

If to the Company:

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

With a copy to:

Ryan S. Hong, Esq.
Richardson & Patel LLP
10900 Wilshire Boulevards, Suite 500
Los Angeles, California 90024-6525

If to the Purchaser:

Payments should be mailed to:

The address indicated on such Purchaser's Lender Questionnaire

If to any other holder of the Notes: at such holder's address for notice as set forth in the register maintained by the Company, or, as to each of the foregoing, at such other address as shall be designated by such Person in a written notice to the other party complying as to delivery with the terms of this Section. All such notices, requests, demands and other communications shall, when mailed or sent by courier, respectively, be effective when deposited in the mails or delivered by courier, respectively, addressed as aforesaid.

7.04. Costs, Expenses and Taxes. The Company agrees to pay on demand all costs and expenses of the Purchaser in connection with the preparation, execution and delivery of this Agreement, the Security Agreement, the Notes and other instruments and documents to be delivered hereunder, including attorneys fees, up to a maximum of $10,000, payable out of funds received through the Notes. In addition, the Company shall pay any and all stamp and other taxes payable or determined to be payable in connection with the execution and delivery of this Agreement, the Security Agreement, the Notes and the other instruments and documents to be delivered hereunder or thereunder and agrees to save the Purchaser harmless from and against any and all liabilities with respect to or resulting from any delay in paying or omission to pay such taxes and filing fees.

7.05. Binding Effect; Assignment. This Agreement shall be binding upon and inure to the benefit of the Company and the Purchaser and their respective successors and assigns, except that the Company shall not have the right to assign its rights hereunder or any interest herein without the prior written consent of the Purchaser.

7.06. Survival of Representations and Warranties. All representations and warranties made in this Agreement, the Notes, or any other instrument or document delivered in connection herewith or therewith, shall survive the execution and delivery hereof or thereof and the making of the loans.

7.07. Prior Agreements. This Agreement constitutes the entire agreement between the parties and supersedes any prior understandings or agreements concerning the subject matter hereof.

7.08. Severability. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision.

7.09. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Oregon.

7.10. Headings. Article, Section and subsection headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

7.11. Sealed Instrument. This Agreement is executed as an instrument under seal.

7.12. Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and each of the parties hereto may execute this Agreement by signing any such counterpart.

7.13. Further Assurances. From and after the date of this Agreement, upon the request of the Purchaser, the Company and each Subsidiary shall execute and deliver such instruments, documents and other writings as may be necessary or desirable to confirm and carry out and to effectuate fully the intent and purposes of this Agreement, the Security Agreement and the Notes.

REMAINDER OF PAGE INTENTIONALLY BLANK

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

BIODRAIN MEDICAL, INC.

By: /s/ Kevin Davidson
Kevin Davidson, CEO

PURCHASER(S):

EXHIBIT 1.01

FORM OF SECURED CONVERTIBLE NOTE

EXHIBIT 10.44

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND HAS BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISTRIBUTION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT.

BIODRAIN MEDICAL, INC.

SECURED CONVERTIBLE NOTE DUE APRIL __, 2008

$150,000.00 July __, 2007

For value received, BIODRAIN MEDICAL, INC., a Minnesota corporation (the "Company"), hereby promises to pay, jointly and not severally, to the Note Holders identified in Schedule A or their registered assigns (hereinafter collectively referred to as the "Payee"), on or before April __, 2008 (the "Maturity Date"), the principal sum of ONE HUNDRED FIFTY THOUSAND DOLLARS ($150,000.00) or such part thereof as then remains unpaid, to pay interest from the date hereof on the whole amount of said principal sum remaining from time to time unpaid at the rate of 8 percent (8%) per annum, such interest to be payable on the Maturity Date. Principal, premium, if any, and interest shall be payable in lawful money of the United States of America, in immediately available funds, at the principal office of the Payee or at such other place as the legal holder may designate from time to time in writing to the Company. Interest shall be computed on the basis of a 360-day year and a 30-day month.

This Note is issued pursuant to and is entitled to the benefits of a certain Secured Convertible Note Purchase Agreement, dated as of July __, 2007, between the Company and Payee (as the same may be amended from time to time, hereinafter referred to as the "Purchase Agreement").

This Note is secured by and entitled to the benefits of that certain Security Agreement ("Security Agreement"), dated July __, 2007, from the Company to Payee.

This Note is contemplated as a bridge loan to an equity financing of approximately $1,500,000 in conjunction with a going public transaction pursuant to a public offering. At the closing of such financing this Note shall automatically convert into common stock of the Company pursuant to the terms of the Purchase Agreement. If such a transaction is not consummated within the fixed term of this Note, then the Company shall owe a one-time cash payment equal to 10% of the principal amount of this Note in addition to the principal and interest then owing.

In case any payment herein provided for shall not be paid when due, the Company promises to pay all cost of collection, including all reasonable attorney's fees.

This Note shall be governed by, and construed in accordance with, the laws of the State of Oregon and shall have the effect of a sealed instrument.

The Company and all endorsers and guarantors of this Note herein waive presentment, demand, notice of nonpayment, protest and all other demands and notices in connection with the delivery, acceptance, performance or enforcement of this Note.

BIODRAIN MEDICAL, INC.

By:/s/ Kevin Davidson
Kevin Davidson, CEO

EXHIBIT 10.45

SECURITY AGREEMENT

The undersigned, BioDrain Medical, Inc., a Minnesota corporation with a place of business and executive office located at 699 Minnetonka Highlands Lane, Orono, Minnesota 55356-9728, (hereinafter referred to as "Debtor") hereby grants to the Purchasers listed on Schedule A to that certain Secured Convertible Note Purchase Agreement dated as of the date of this Agreement (hereinafter called the "Secured Party"), a security interest in and agrees and acknowledges that Secured Party has and will continue to have a security interest in the following:

(A) All of Debtor's inventory of whatever name, nature, kind or description, all Debtor's goods held for sale or lease or to be furnished under contracts of service, finished goods, work in process, raw materials, materials used or consumed by the Debtor, parts, supplies, all wrapping, packaging, advertising, labeling, and shipping materials, devices, names and marks, all contract rights and documents relating to any of the foregoing, whether any of the foregoing be now existing or hereafter arising, wherever located, now owned or hereafter acquired by the Debtor (all of which is sometimes hereinafter referred to as "Inventory");

(B) All of the Debtor's presently owned and hereafter acquired equipment, machinery, furniture, fixtures and all other tangible personal property of whatsoever kind or nature, together with all proceeds thereof, additions and accessions thereto or replacements thereof or substitutions therefor (all of which is sometimes hereinafter referred to as "Equipment");

(C) All of the Debtor's accounts, accounts receivable, notes, bills, drafts, acceptances, instruments, documents, chattel paper and all other debts, obligations and liabilities in whatever form owing to the Debtor for goods sold by it or for services rendered by it, or however otherwise established or created, all guaranties and security therefor, all right, title and interest of the Debtor in the goods or services which gave rise thereto, including rights of an unpaid seller of goods or services; whether any of the foregoing be now existing or hereafter arising, now or hereafter received by or owing or belonging to the Debtor (all of which are sometimes hereinafter referred to as "Accounts");

(D) All of the Debtor's general intangibles, including without limitation, names, goodwill, trade secrets, copyrights, trademarks, trademark applications, tradenames, patents, patent applications, licenses, other intellectual property, permits, governmental approvals, deposit accounts, tax refunds, claims under insurance policies (whether or not proceeds from Collateral), other rights to payment, rights of setoff, choses in action, rights under judgments, computer programs and software, contract rights, and all contracts and agreements to, or of which it is a party or beneficiary, and all intangible personal property of whatsoever kind or nature now owned by the Debtor as well as any and all thereof that may be hereafter acquired and in and to all proceeds thereof;

(E) All of the Debtor's books and records, as they exist from time to time, relating to (A) through (D) above, inclusive;

(F) All other assets of every nature and description, whether it be now existing or hereafter arising and whether now or hereafter belonging to the Debtor;

(all hereinafter sometimes collectively referred to as "Collateral"); to secure the payment of all sums due or which may become due under certain Secured Convertible Notes, due April __, 2008, of the Debtor in the original aggregate principal amount of One Hundred Fifty Thousand Dollars ($150,000), such notes being issued pursuant to a certain Secured Convertible Note Purchase Agreement (the "Purchase Agreement") by and between the Debtor and Secured Party of even date herewith (hereinafter sometimes collectively referred to as "Obligation" or "Obligations").

I. WARRANTIES AND COVENANTS.

The Debtor hereby warrants and covenants that:

(A) The Equipment and Inventory are used primarily for business purposes.

(B) The Equipment and Inventory of the Debtor will be kept at the Debtor's places of business, set forth above.

(C) Except for the security interest granted hereby the Debtor is the owner of its presently owned Collateral and will be the owner of its Collateral hereafter acquired free from any adverse lien, security interest or encumbrance, and the Debtor will defend the Collateral against the claims and demands of all persons at any time claiming the same or any interest therein.

(D) No financing statements covering any Collateral or any proceeds thereof are on file in any public office, and at the request of Secured Party, the Debtor will join with Secured Party in executing one or more (i) financing statements pursuant to the Uniform Commercial Code, (ii) title certificate lien application forms; and (iii) other documents necessary or advisable to perfect the security interests evidenced hereby, all in form satisfactory to Secured Party and the Debtor will pay the cost of filing the same or filing or recording this Agreement in all public offices wherever filing or recording is deemed by Secured Party to be necessary or desirable.

(E) The Debtor will have and maintain insurance at all times with respect to all its Collateral against risks of fire (including so-called extended coverage), theft, embezzlement and such other risks as Secured Party may reasonably require containing such terms, in such form, for such periods and written by such companies as may be reasonably satisfactory to Secured Party.

(F) The Debtor will upon request made by the Secured Party render to the Secured Party a list of all Accounts and a statement indicating the total dollar amount of the Accounts then outstanding.

(G) The Debtor will keep its Collateral free from any adverse lien, security interest or encumbrances. The Debtor will at all times keep accurate and complete records of its Accounts. The Debtor shall immediately notify the Secured Party of any event causing material loss or depreciation in value of any of its Accounts and the amount of such loss or depreciation.

II. ADDITIONAL RIGHTS AND ASSURANCES.

(A) At the Secured Party's request, the Debtor at its expense will promptly and duly execute and deliver such documents and assurances and take such actions as may be necessary or desirable or as the Secured Party may request in order to correct any defect, error or omission which may at any time be discovered or to more effectively carry out the intent and purpose of this Agreement and to establish, perfect and protect the Secured Party's security interest, rights and remedies created or intended to be created hereunder.

(B) Subject to the law of the State of Minnesota., the Secured Party will at any time following an occurrence of an Event of Default hereunder have the right to take physical possession of the Collateral and to maintain such possession on the Debtor's premises or to remove the Collateral or any part thereof to such other places as the Secured Party may desire. If the Secured Party exercises such right, the Debtor shall at its sole expense upon the Secured Party's request assemble the same and make it available to the Secured Party at a place reasonably convenient to the Secured Party.

III. EVENTS OF DEFAULT.

The Debtor shall be in default under this Agreement upon the happening of any of the following events or conditions (individually and collectively an "Event of Default"):

(A) Failure by the Debtor to observe or perform any covenant or agreement referred to herein and, if no other grace or cure period is applicable thereto, the continuance of such failure for fifteen (15) business days;

(B) Sale, transfer or assignment of any of the Collateral (including via an assignment of transfer of any interest of the Debtor) (except the sale of inventory in the ordinary course of business); or

(C) An Event of Default (as defined in the Purchase Agreement or the Notes, or under any of the documents referred to therein) shall have occurred and is continuing and such Event of Default has not been annulled.

IV. REMEDIES.

(A) If an Event of Default occurs:

(1) The Secured Party may declare all obligations secured hereby to be immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived.

(2) The Secured Party may exercise and shall have any and all rights and remedies accorded it by the Minnesota. Uniform Commercial Code or the Uniform Commercial Code as adopted in such state whose laws govern the disposition of certain Collateral.

(B) No delay in accelerating the maturity of any obligation as aforesaid or in taking any other action with respect to any Event of Default or in exercising any rights with respect to the Collateral such affect the rights of the Secured Party later to take such action with respect thereto, and no waiver as to one Event of Default shall affect rights as to any other default.

V. MISCELLANEOUS.

(A) The Debtor irrevocably

(1) agrees that any suit, action, or other legal proceeding arising out of this Agreement may be brought in the courts of record of the State of Minnesota. or the courts of the United States located in such state;

(2) consents to the jurisdiction of each such court in any such suit; action or proceeding; and

(3) to the extent permitted under applicable law, waives any objection which it may have to the laying of venue of such suit, action or proceeding in any of such courts and waives any right to a trial by jury in any of such courts.

(B) In case any one or more of the provisions contained herein should be invalid, illegal or unenforceable in any respect, the validity, legality or enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

(C) All rights of the Secured Party hereunder shall inure to the benefit of its successors and assigns; and all obligations of the Debtor shall bind the successors or assigns of the Debtor. All the provisions of this Agreement shall be construed by and administered in accordance with the local laws of the State of Minnesota.. This Agreement shall become effective when it is signed by the Debtor. The Debtor acknowledges receipt of a copy of this Agreement.

(D) In the absence of gross negligence or willful misconduct, neither the Secured Party nor any attorney-in-fact appointed hereunder shall be liable to the Debtor or any other person for any act or omission, any mistake of fact or any error of judgment in exercising any right or remedy granted herein.

REMAINDER OF PAGE INTENTIONALLY BLANK

IN WITNESS WHEREOF, THE DEBTOR HAS EXECUTED THIS AGREEMENT AS OF JULY __, 2007.

DEBTOR:
BIODRAIN MEDICAL, INC.

By: /s/ Kevin Davidson
Kevin Davidson, CEO

PURCHASER(S):

CORE FUND MANAGEMENT, LP
By: Cascade Management LLC
Its: General Partner

By: /s/ David Baker
David Baker, Manager

EXHIBIT 14

CODE OF ETHICS

OF

BIODRAIN MEDICAL, INC.

(as adopted November 14, 2008)

I. Introduction

The board of directors (the "**Board**") of BioDrain Medical, Inc., a Minnesota corporation, (the "**Company**"), has adopted this BioDrain Medical, Inc. Code of Ethics (this "**Code**"), which is applicable to all directors, officers and employees of the Company, to:

- promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- promote the full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission (the "**SEC**"), as well as in other public communications made by or on behalf of the Company;
- promote compliance with applicable governmental laws, rules and regulations;
- deter wrongdoing; and
- require prompt internal reporting of breaches of, and accountability for adherence to, this Code.

No code or policy can anticipate every situation that may arise. Accordingly, this Code is intended to serve as a source of guiding principles. Directors, officers and employees are encouraged to bring questions about particular circumstances that may involve one or more of the provisions of this Code to the attention of the Company's Chief Executive Officer or Chairman of the Board, who may consult with the Company's outside legal counsel as appropriate.

This Code may be amended only by unanimous resolution of the Board.

II. Honest, Ethical and Fair Conduct

Each director, officer and employee of the Company owes a duty to the Company to act with integrity. Integrity requires, among other things, being honest, fair and candid. Deceit, dishonesty and subordination of principle are inconsistent with integrity. Service to the Company should never be subordinated to personal gain and advantage.

Each director, officer and employee of the Company must:

1. act with integrity, including being honest and candid while still maintaining the confidentiality of the Company's information where required or in the Company's interests;
2. observe all applicable governmental laws, rules and regulations;

3. comply with the requirements of applicable accounting and auditing standards, as well as Company policies, in order to maintain a high standard of accuracy and completeness in the Company's financial records and other business-related information and data;

4. adhere to a high standard of business ethics and not seek competitive advantage through unlawful or unethical business practices;

5. deal fairly with the Company's customers, suppliers, competitors and employees;

6. refrain from taking advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair-dealing practice;

7. protect the assets (both tangible and intangible) of the Company and ensure their proper use;

8. refrain from taking personal opportunities that are discovered through the use of corporate assets or using corporate assets, information or position for personal gain outside the scope of employment or service with the Company;

9. refrain from trading in the Company's securities at any time when aware of material nonpublic information about the Company, or passing on to others material nonpublic information about the Company;

10. avoid conflicts of interest, wherever possible, except under guidelines or resolutions approved by the Board (or the appropriate committee of the Board). Anything that would be a conflict for a person subject to this Code also will be a conflict if it is related to a member of his or her family or a close relative.

    Examples of conflict of interest situations include, but are not limited to, the following:

    a. any significant ownership interest in any supplier or customer;

    b. any consulting or employment relationship with any customer, supplier or competitor;

    c. any outside business activity that detracts from an individual's ability to devote appropriate time and attention to his or her responsibilities with the Company;

    d. conducting business with, or competing with, an entity in which a director, officer or employee has an ownership interest or in which a close relative has an ownership or employment interest, unless such business relationship has been disclosed and authorized by a majority of the independent members of the Board;

    e. the receipt of any money, non-nominal gifts or excessive entertainment from any company with which the Company has current or prospective business dealings or from any entity if the money, gift or entertainment is for the purposes of influencing the director, officer or employee in his or her capacity as such;

f. being in the position of supervising, reviewing or having any influence on the job evaluation, pay or benefit of any close relative;

g. selling anything to the Company or buying anything from the Company, except on the same terms and conditions as comparable officers or directors are permitted to so purchase or sell; and

h. any other circumstance, event, relationship or situation in which the personal interest of a person subject to this Code interferes–or even appears to interfere–with the interests of the Company as a whole.

III. Disclosure

The Company strives to ensure that the contents of and the disclosures in the reports and documents that the Company files with the SEC and other public communications shall be full, fair, accurate, timely and understandable in accordance with applicable disclosure standards, including standards of materiality, where appropriate. Each director, officer and employee must:

1. not knowingly misrepresent, or cause others to misrepresent, facts about the Company to others, whether within or outside the Company, including to the Company's independent auditors, governmental regulators, self-regulating organizations and other governmental officials, as appropriate; and

2. in relation to his or her area of responsibility, properly review and critically analyze proposed disclosure for accuracy and completeness.

In addition to the foregoing, the Chief Executive Officer and Chief Financial Officer of the Company and each subsidiary of the Company (or persons performing similar functions), and each other person that typically is involved in the financial reporting of the Company must familiarize himself or herself with the disclosure requirements applicable to the Company as well as the business and financial operations of the Company.

Each director, officer and employee must promptly bring to the attention of the Chairman of the Audit Committee of the Board (or the Chairman of the Board) any information he or she may have concerning (i) significant deficiencies in the design or operation of internal and/or disclosure controls which could adversely affect the Company's ability to record, process, summarize and report financial data or (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's financial reporting, disclosures or internal controls.

IV. Compliance

It is the Company's obligation and policy to comply with all applicable governmental laws, rules and regulations. It is the personal responsibility of each person to, and each person must, adhere to the standards and restrictions imposed by those laws, rules and regulations, including those relating to accounting and auditing matters.

V. Reporting and Accountability

The Board or Audit Committee of the Board is responsible for applying this Code to specific situations in which questions are presented to it and has the authority to interpret this Code in any particular situation. Any director, officer or employee who becomes aware of any existing or potential breach of this Code is required to notify the Chairman of the Board or the Chairman of the Audit Committee promptly. Failure to do so is itself a breach of this Code.

1. Each director, officer and employee must:

    a. notify the Chairman of the Board or the Chairman of the Audit Committee promptly of any existing or potential violation of this Code; and

    b. not retaliate against any other person for reports of potential violations that are made in good faith.

2. The Company will follow the following procedures in investigating and enforcing this Code and in reporting on the Code:

    a. The Board or Audit Committee will take all appropriate action to investigate any breaches reported to it.

    b. If the Board or Audit Committee determines (by majority decision) that a breach has occurred, it will inform the entire Board.

    c. Upon being notified that a breach has occurred, the Board (by majority decision) will take or authorize such disciplinary or preventive action as it deems appropriate, after consultation with the Audit Committee and/or the Company's counsel, up to and including dismissal or, in the event of criminal or other serious violations of law, notification of the SEC or other appropriate law enforcement authorities.

No person who reports an incident in accordance with the above procedure shall, as a result of following such procedure, be subject by the Company or any officer or employee thereof to discharge, demotion suspension, threat, harassment, or, in any manner, discrimination against such person in terms and conditions of employment.

VI. Waivers and Amendments

Any waiver, including an implicit waiver, from a provision of this Code or any amendment to this Code that applies to the principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, is required to be disclosed in a Report on Form 8-K filed with the SEC, unless the Company discloses the required information on its Internet website and has disclosed in its most recently filed annual report its Internet address and intention to provide disclosure in this manner.

A "waiver" means the approval by the Company's Board of a material departure from a provision of the Code. An "implicit waiver" means the Company's failure to take action within a reasonable period of time regarding a material departure from a provision of the Code that has been made known to an executive officer of the Company. An "amendment" means any amendment to this Code other than technical, administrative or other non-substantive amendments hereto.

All persons should note that it is not the Company's intention to grant or to permit waivers from the requirements of this Code. The Company expects full compliance with this Code.

VII. Other Policies and Procedures

Any other policy or procedure set out by the Company in writing or made generally known to employees, officers or directors of the Company prior to the date hereof or hereafter are separate requirements and remain in full force and effect.

VIII. Inquiries

All inquiries and questions in relation to this Code or its applicability to particular people or situations should be addressed to the Company's Chief Executive Officer, or such other compliance officer as shall be designated from time to time by the Company.

BIODRAIN MEDICAL, INC.

CODE OF ETHICS

ACKNOWLEDGEMENT FORM

All directors, officers and employees of BioDrain Medical, Inc. (the "Company") are required to read and follow the BioDrain Medical, Inc. Code of Ethics and complete this Acknowledgement Form.

Acknowledgement

I hereby acknowledge that I have received a copy of the BioDrain Medical, Inc. Code of Ethics and that I will be responsible for obtaining any and all future amendments and modifications thereto.

I further acknowledge that I have read, understand, and am in full compliance with all of my obligations, duties, and responsibilities under each provision of the BioDrain Medical, Inc. Code of Ethics.

I understand and agree that upon receipt of proof of a violation of the BioDrain Medical, Inc. Code of Ethics, the Board of Directors of the Company may proceed with an investigation and proper action may be taken.

Name (Print):_____

Signature:_____

Date:_____

Please complete the above and submit only this page to BioDrain Medical, Inc. at 2060 Centre Pointe Boulevard, Suite 7, Mendota Heights, Minnesota 55120, Phone Number (651) 389-4800.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Olsen, Thielen & Co. Ltd.

St. Paul, Minnesota
January 12, 2009

January 9, 2008

VIA FEDERAL EXPRESS AND EDGAR
Geoffrey Kruczek
Securities and Exchange Commission
Division of Corporate Finance
Mail Stop 3030
Washington D.C. 20549

Re: **BioDrain Medical, Inc.**
Registration Statement on Form S-1
File November 12, 2008
File No. 333-155299

Dear Mr. Davidson:

We have reviewed your filing and have the following comments. Where indicated, we think you should revise your document in response to these comments. If you disagree, we will consider your explanation as to why our comment is inapplicable or a revision necessary. Please be detailed as necessary in your explanation. In some of our comments, we may ask you to provide us with information so we may better understand your disclosure. After reviewing this information, we may raise additional comments.

Please understand that the purpose of our review process is to assist you in your compliance with the applicable disclosure requirements and to enhance the overall disclosure in your filing. We look forward to working with you in these respects. We welcome any questions you may have about our comments or any other aspect of our review. Feel free to call us at the telephone numbers listed at the end of this letter.

Fee Table

1. **Please reconcile your disclosures here and on pages 27 and 58 regarding the number of warrants issued by you in your August 2008 financing.**

Response: We have revised our disclosures throughout the document to indicate that we issued warrants to purchase 4,689,290 shares of common stock in connection with the private offering in a series of financings which the last closing took place in October 2008 (not August 2008), including 4,552,682 warrants issued to investors and 136,429 warrants issued to consultants who provided services in connection with the offering.

Please find an additional breakdown of the share amounts reflected in the Calculation of Registration Fee Table below for your reference.

The 7,101,267 shares of common stock to be registered reflected on the Calculation of Registration Fee Table consist of:

- *4,552,862 shares for investors;*
- *547,285 shares for finders;*
- *1,715,405 shares for deal principals; and*
- *285,714 shares in exchange for legal fees.*

The 4,689,290 shares of common stock underlying warrants to be registered reflected on the Calculation of Registration Fee Table consist of:

- *4,552,862 shares for investors; and*
- *136,429 shares for finders.*

The total stock outstanding of 8,180,831 reflected throughout the document consists of:

- *7,101,267 shares (explained above);*
- *808,704 shares from original shareholders;*
- *142,291 anti-dilution shares from the original shareholder's agreement; and*
- *128,571 contractual shares from the original shareholder's agreement.*

2. **Given that there does not appear to be an existing market for your securities, your reference to Rule 457(c) appears to be inapplicable. Please revise.**

Response: We have revised the Calculation of Registration Fee Table accordingly.

Prospectus Cover Page

3. **Because there is no current market for the registrant's securities, please revise to clarify that the selling shareholders will sell at a specified fixed price per share until the registrant's shares are quoted on the OTC Bulletin Board (or other specified market) and thereafter at prevailing market prices or privately negotiated prices.**

Response: We have revised the Prospectus Cover Page accordingly.

4. **We note that you are registering the resale if 620,096 common shares underlying warrants that are issuable upon conversion of notes. Because the warrants have not yet been issued, it is premature to register the underlying common shares for resale. Please remove them from this registration statement.**

Response: The 620,096 common shares underlying warrants in conjunction with the bridge loan we undertook in July 2007 will be issued by the end of January 2009 so we included the warrants in the registration statement.

Prospectus Summary, page 1

5. **Please Disclose that you have not yet requested or received FDA regulatory clearance to market and sell your products.**

Response: We have included the above phrase in the prospectus Summary page 1.

Risk Factors, page 3

6. Include a risk factor to discuss the anticipated restructuring in the event you do not obtain FDA approval by August 2009, and discuss the risks this presents to potential investors.

Response: We have included a risk factor on page 6 to discuss the risks associated with the anticipated restructuring in the event we do not obtain FDA approval by August 2009.

7. We note the disclosure on page 49 regarding registration of a class of your equity securities under Exchange Act. Please tell us when you plan to register a class of your securities. If you do not intend to register a class of securities before this registration statement is effective, please:

- Disclose the risks related to termination of periodic disclosure due to the automatic reporting suspension under Section 15(d) of the Exchange Act; and

- Explain the effect of the inapplicability of the proxy rules and Section 26 of the Exchange Act.

Response: We have added such disclosures on page 10.

8. It appears from your disclosures on pages 3, 25 and 58 that you recently approved a reverse stock split that reduced the number of shares you are authorized to issue to 11,970,994. We also note that you will be submitting a proposal to your shareholders for approval to increase the number of authorized and unissued shares. Please ensure that shareholder approval is obtained prior to requesting acceleration of this registration statement so that the shares being registered for issuance are actually authorized.

Response: Shareholder approval for the increase in authorized shares from 11,970,994 to 40 million was obtained on December 3, 2008 and we amended our disclosures in the registration statement accordingly.

Because we are a development stage company … page 3

9. Please reconcile your disclosure here and on page 13 regarding whether you will receive proceeds from this offering. If the proceeds you will receive from this offering depend solely on whether the holders of outstanding warrants exercise those securities, then please revise to clarify that fact here.

Response: We have reconciled our disclosure on page 3 with the disclosure on page 15 regarding receipt of proceeds from this offering.

Our business would be materially and adversely affected… page 4

10. Please clarify the nature of your interest in the intellectual property you claim. For example, you indicate in the first sentence on page 5 that the intellectual property developed by Mr. Ryan was "licensed" to you. However, the last sentence of this risk factor states that you are the "exclusive owner of the patent." Additionally, you indicate on pages 1 and 4 that you own patent and patent- pending rights and disclose on page 32 that you are the assignee of "the patent-pending product."

Response: We are the exclusive owners of the patent. The language on page 5 was changed to omit the word "licensed" and the word "assignment" on page 32 was changed to "ownership"

11. **We note the disclosure that Mr. Ryan was added as a named inventor to the pending patent application. We also note the disclosure that you removed from the U.S. patent application Messrs. Nord and Drogue as inventors. However, it is our understanding that Messrs. Nord and Drogue continue to be listed as inventors on the pending application and that Mr. Ryan is not listed as an inventor. Please revise or advice.**

Response: Mr. Ryan is the inventor and is so listed on the pending patent application No. 10/524086 and also on the divisional application No.12277985 filed on November 25, 2008. Messrs. Nord and Drogue have been removed from the U.S. patent application. We revised our disclosure on page 5 accordingly.

We face intense competition…page5

12. **Please provide us with supplemental support for the data referenced in your prospectus, marketing the relevant sections to support the disclosure. For example, you cite to Frost & Sullivan here and page 28. You also cite to numerous other publications throughout your "Description of Business" section. Also, please tell us whether the studies and articles you cite were financed by you or performed at your direction and whether the authors have consented to use of their name in this document.**

Response: We obtained the Frost & Sullivan data from the internet at www.frost.com and have updated our disclosure accordingly. We did not obtain consent and we have not paid for any data used in the Form S-1.

13. **It is generally inappropriate for a risk factor to contain language that mitigates the risk discussed. We note specifically the discussion at the end of the first paragraph regarding the "distinct advantages" of your product. Also, it appears that Stryker and other competitors have designed systems that also eliminate handling and exposure to infectious fluids, so the disclosure, if retained, should be more balanced.**

Response: We removed the language that mitigates the risk discussed.

Our products require FDA approval… page 6

14. **Given the variety of uncertainties discussed in this risk factor, please revise the first paragraph to remove your belief that "the likelihood of regulatory approval for our products is very high."**

Response: The above phrase has been removed from the sentence on page 6.

15. **Expand to discuss your obligation to obtain FDA approval by the end of August, 2009, and the related risks if you have not done so, as described on pages 39 and 40.**

Response: We included a risk factor on page 6 of our obligation to obtain FDA approval by the end of August 2009.

There is currently no public trading market… page 8

16. **Please clarify when you anticipate submitting an application for quotation to the OTC Bulletin Board. Also disclose any obstacles that exist before such an application will be submitted and accepted. For example, it is our understanding that an application for quotation must be submitted by a market maker. Has a market maker already committed to submitting such an application?**

Response: We included disclosure on our application for quotation on the OTC Bulletin Board on page 9.

If our common stock is accepted for quotation…page 9

17. **We note the reference here and your prospectus cover page to applying for trading on the Nasdaq or NYSE markets. Please disclose here and on your cover page whether you currently meet the objective listing criteria for those markets. Also disclose here what hurdles remain before you will satisfy those criteria.**

Response: We included a risk factor on our application for trading on the Nasdaq or NYSE markets on page 10.

Other Securities For Issuance Upon Certain Contingencies, page 18

18. **Please disclose the identities of the persons with whom you entered into the agreements mentioned here. Also describe the nature of the service to be provided by the regulatory consultant and file that agreement as an exhibit. Include a description of the purpose of the provision requiring the attainment of performance goals and disclose of those performance goals.**

Response: The persons have been identified and the nature of the consulting services described on page 18. The consulting agreements have been added as exhibits 10.37 through 10.41 to Amendment 1. The purpose of the provision requiring the attainment of performance goals was added "to help to ensure a timely approval of the 510(k)." and the performance goals themselves were disclosed. We also moved this entire section to the MD&A so that it explains the disclosure we added to the financial statements.

19. **Please expand the notes to financial statements to describe the equity arrangements disclosed under this heading. Your disclosure should fully describe the accounting applied or that will be applied, as appropriate, and the basis in GAAP for that accounting. The disclosure should also describe the specific performance goals and any other conditions of the grants that impact vesting or exercisability. Refer to SFAS 123(R) for further guidance. Please ensure that the notes to financial statements include disclosure about all obligations to issue equity securities, including contingent obligations.**

Response: The notes to financial statements have been expanded to include all of the contingent equity arrangements, accounting applied and basis, under Page F-9 Note 3 Stock Options and Warrants "Other Securities for Issuance Upon Certain Contingencies".

Management's Discussion and Analysis… page 20

20. **We note your disclosure that your capital requirements for the next 12 months are expected to be "rather moderate". Please reconcile this statement with your disclosure on page 3 that you will need to raise at least $3 million in order to have sufficient financial resources to fund our operations for the next 12 months and your disclosure on page 22 that you anticipate needing secondary financing during 2009.**

Response: The sentence including the phrase "rather moderate" was changed to read "Since we do not expect to generate sufficient revenues in 2009 to fund our capital requirements, our capital needs for the next 12 months, are expected to be at approximately $3 million…"

Critical Accounting Policies and Estimates, page 20

21. **Please revise to provide a discussion of your critical accounting policies and estimates. This discussion should present your analysis of the uncertainties involved in applying an accounting principle at a given time or the variability that is reasonably likely to result from its application over time. You should address specifically why your accounting estimates or assumptions bear the risk of change. For example, it appears that there is significant judgment in valuing stock options and warrants. Refer to FR-72.**

Response: A paragraph was added on page 22 identifying how accrued liabilities, accrued interest, compensation expense and warrants and options were computed / estimated along with the risk of change with regard to the valuation of warrants and options.

Results of Operations, page 21

22. **We see that general and administrative expense increased in the six months ended June 30, 2008 in part due to $91,400 of "product development" costs. In addition, you disclose that research and development costs increased to $91,400 for the six months ended June 30, 2008. Please explain whether these disclosures are referring to the same expenses and, if so, how they can be included in two different expense classifications. Please revise as appropriate.**

Response: These disclosures are referring to the same expenses. We have moved any discussion regarding product development out of the general and administrative section and updated the general and administrative section to include reasons for the increase in general and administrative expenses on page 22.

23. **Please revise to discuss the reasons for the increase in legal fees of $78,500 and salaries of $68,100 for 2008 compared to 2007.**

Response: The reasons for the increases in legal fees and salaries, namely S-1 filing and paying less than full salaries in 2007, respectively, have been added to the discussion on page 22.

24. **We reference the disclosure that research and development expense increased in 2008 due to "an accumulation of unbilled work from 2003 to 2007" and the discussion of the increase in research and development expense in 2006 due to "unbilled development fees since inception." Please revise to discuss the nature of the unbilled work, the timing of the billings for work performed and the circumstance that resulted in the aforementioned increased expenses.**

Response: The nature of the unbilled work has been included on page 22 along with the timing of the billing for work performed and the circumstance that gave rise to the increased expenses.

25. **As a related matter, it would appear unusual for a third party to incur billable work since 2003 without billing and payment. If you have incurred costs or entered into other transactions with related parties, such as non- employees, shareholders, please ensure that the notes to financial statements provide all of the disclosures required by SFAS 57.**

Response: There have been no other such incurred costs or transactions with related parties and therefore we believe no disclosures are necessary.

26. **With a view toward disclosures, tell us to whom the $91,400 was paid.**

Response: An invoice for $100,000 was submitted by Mid-State Stainless, Inc. in 2008. This amount has not yet been paid and is included in accounts payable. This information has been included on page 22.

27. **You disclosed that accrued payroll totaling $336,600 was "eliminated" in 2007. Please expand the notes to financial statements to describe this significant transaction and the accounting applied. If these individuals were also shareholders, it is not clear why the "eliminated" of these salaries is not a capital contribution. Accordingly, please explain to us the basis in GAAP for your accounting. We refer you to APB 26.**

Response: The elimination of the salaries of $346,714 was charged to salaries as of December 31, 2007 with a note to partially compensate the individuals involved with cash bonuses and stock options when our company reached $3million in funding. This information was added to the discussion on page 23.

28. **Further, please clarify in MD&A why general and administration expense for six months ended June 30, 2007 are 153,900 but general and administrative expenses for the year ended 12/31/07 are $125,300. If this is related to the "elimination" of payroll, please elaborate by providing additional disclosures in your MD&A.**

Response: The discussion regarding the elimination of accrued payroll on page 23 was expanded to include the difference between the June 30, 2007 and December 31, 2007 decrease in general and administrative expense.

Liquidity and Capital Resources, page 21

29. **We note your disclosure on page 22 regarding sufficiently of funds through the first half of 2009 and anticipated need for a secondary financing. We also note your disclosure on page 3 regarding the need to raise $3 million to fund your operations for the next 12 months. Please provide investors with a better understanding of your currently known capital requirements and amounts needed to satisfy your outstanding obligations. For example, discuss and quantify, among other things:**

- **The accrued payroll expense as of June 30, 2008 noted on page 3;**
- **The amounts necessary to seek and obtain approval from the FDA and Underwriters Laboratories mentioned on page 39;**
- **The expenses you will incur in connection with your August 2008 financing, as noted on page II-4;**
- **The fees you owe in connection with your August 2008 financing, as noted on page 4;**
- **Any ongoing payments required by you to satisfy outstanding debt, such as the instruments mentioned on page 23, including if the holders of those instruments decide not to receive shares in lieu of cash; and**
- **The amount you will need to satisfy your reporting obligations under the Exchange.**

Please also provide your assessment of the accessibility of and risks to accessing needed capital. For example, will your doubts about your ability to continue as a going concern make your access to needed capital more difficult or expensive? How does your statement regarding sufficiently of funds account for the uncertainty regarding whether holders of your outstanding warrants will exercise those securities?

Response: We have added a table to page 23 listing the items suggested above and others to provide detail to our known capital requirements and we also discussed the risks to accessing the capital.

30. **We see that you have experienced recurring operating losses and negative cash flows. We also note that you will need significant additional capital to fund the development of your business. Please expand the disclosure in this section to discuss the following:**

- **Your plan of operation for the next twelve months, including a how you expect to obtain additional financing and plans for the "secondary financing" that is anticipated in 2009;**
- **The effect of the current economic conditions on your operating plans;**
- **A summary of any product research and development that you will perform for the term of the plan;**
- **An indication of the amount of cash that will be required to bring your products under development to the market;**
- **Any expected purchase or sale of plant and significant equipment; and**
- **Any expected significant changes in the number of employees.**

Refer to Item 303 of Regulation S-K

Response: We added disclosure on page 25 to address the bullet points listed above.

31. **Please clarify how net cash provided by financing activities increased during the six months ended June 30, 2008 due to the receipt of investment capital from a private offering that occurs subsequent to that period.**

Response: The receipt of cash from the October 2008 financing covered a span of five months from June through October. We received approximately $580,000 of financing in the month of June. We revised the disclosure on page 25 accordingly.

Commitments and Contingencies, page 22

32. **From your disclosure on page 23, it appears that notes payable previously issued by you and are now overdue. Please disclose the potential consequences of failing to make required payments on these instruments, such as quantification of the monetary payments on these instruments, such as quantification of the monetary payments mentioned on page 59. Please also refer to our first comment under the heading "Liquidity and Capital Resources."**

Response: We added a statement to page 27 regarding potential consequences of failure to make payments on the notes and quantified the penalties associated with failure to pay the note.

33. Please disclose the number of shares into which the $100,000 note payable may be converted. Given the dates on which exhibits 10.20 and 10.21 were executed and the disclosure in your document regarding the August 2008 private placement, it appears that "next completed financing" has already occurred.

Response: The notes are convertible into 285,713 shares of common stock at $.35 per share. This change was added to the table on page 26/27.

Stock Options and Warrants, page 24

34. Please tell us why your tables here and page 25 do not include

- The stock options issuance to Mr. Ruwe on June 16, 2008 that is mentioned on page 46;
- The stock option grant to Mr. Davidson on June 5, 2008 that is mentioned on page 44; and
- The stock option grants mentioned in the last paragraph of page 50.

Response: The stock options mentioned in the bullet points above have been added to the tables on page 29.

35. Please ensure that your disclosure regarding the reverse stock splits consistently and completely describes the nature and amount of those transactions. For example, we note:

- Your disclosure here and on pages 2,F-5, F-9, F-10 and F-20 refer to inconsistent reverse stock split ratios;
- Your disclosure does not describe the impact of those transactions on the number of shares that were outstanding before and after each transaction;
- That the purpose for the multiple reverse stock splits within a short period of time is clear; and
- That your disclosure regarding the reverse stock split approved on October 20, 2008 appears to be inconsistent with your disclosure on page F-3, in that the disclosure on page F-3 indicates that the transaction occurred prior to June 30, 2008.

Response: We added a Reverse Stock Split Table on page 30 to reflect the information requested and updated inconsistencies throughout the registration statement. The reason for the two stock splits is also disclosed on page 30.

36. **We note that the reverse stock splits mentioned here changed the number of shares that you were authorized to issue. It also appears from your disclosure on page 2 that no shareholder approval was obtained for these transactions. Please tell us how not obtaining shareholder approval is consistent with your governing documents and the laws of the state in which you are incorporated. Cite all authority on which you rely.**

Response: As disclosed on page 2, Pursuant to Section 302A.402 of the Minnesota Business Corporations Act, since the reverse stock splits did not adversely affect the rights or preferences of the holders of our outstanding common stock and did not result in the percentage of authorized shares of any class or series of our stock that remains unissued after the reverse stock splits exceeding the percentage of authorized shares of that class or series that were unissued before the reverse stock splits, no shareholder approval was required.

37. **It is not clear whether the impact of the stock splits have been fully reflected in the table on page 25 since the numbers of options and warrants and related exercise prices as of December 31, 2007 do not appear to agree to the corresponding information presented on page 24. Please appropriately revise.**

Response: We amended the table on page 29 to reflect the impact of the stock splits.

Overview, page 27

38. **Please disclose the identities of the "three other individuals" who founded the company.**

Response: We included the names of the three other founders of the Company on page 35.

39. **We note that you make numerous claims regarding the safety and efficacy of your product, including that it "minimizes the exposure potential to the healthcare workers who handles such fluids," "greatly reduces the safety issues facing operating room nurses" and has "distinct advantages" over existing products. You also state on page 33 that it represents the "first true innovation" and "will redefine the manner in which such material is collected…" Reconcile these statements with the fact that other companies have also developed systems that dispose infectious fluids into sanitary sewer systems without exposure of healthcare workers to infectious fluids.**

Response: We revised our disclosures throughout the Description of Business Section accordingly.

Private Placement Financing, page 27

40. **Please ensure that description of your transaction is accurate and complete. For example, you describe the private offering here as having been completed in August 2008, but you disclose on page F-10 that it closed on November 1, 2008. Please revise. Also reconcile your disclosures on pages 4, 27, F-10 and F-20 regarding the amount of funds you have received in the private financing and when you received those funds.**

Response: We amended our disclosure throughout the registration statement to reflect that the offering closed in October 2008 and also to reconcile the funds we received through the offering.

Products, page 30

The Fluid Management System ("FMS"), page 30

41. Please clarify how your product significantly reduces the risk of healthcare worker exposure to infectious fluids and requires minimal human interaction. We note, for example, your disclosure here that your proprietary cleaning fluid needs to be attached near the end of each procedure. We also note your disclosure on page 37 regarding the disposal of suction tubing and empty cleaning solution containers.

Response: We have included more specific descriptions on pages 36 and 37 of the individual processes helping to clarify how our system improves safety. We addressed how disposal of cleaning solution and suction tubing post procedure will affect healthcare workers' safety.

42. Please fully describe the potential steps and costs involved in the installation of your system, including those relating to labor and professional fees, such as architects. For example, might a hospital need to redirect sewer lines and wall suction systems to join with your system? Would the room also be unavailable for us during this period of installation? Where would the "large fluid reservoir" be located? Also explain how the system could be installed "on or in the wall" of the operating room. It appears that the other systems on the market that dispose infectious fluids directly into sanitary sewers are portable. Discuss any disadvantages that may result from an immovable system in an operating room.

Response: We have expanded our disclosures of additional costs related to our products on page 40 and throughout the Description of Business Section.

43. Clarify the nature of your "substantial" regulatory work you have done to date in preparation of your submission to the FDA as mentioned on page 31

Response: We have expanded on the steps we have taken in preparation for our FDA Submission starting on page 40.

Patents and Intellectual Properties, page 32

44. **We note the disclosure on page 5. Please expand the disclosure here to describe in more detail the issues related to the Nord/Drogue patent application. For example, describe the Nord/Drogue embodiment, and the Ryan embodiment. Describe your current relationship with Nord/Drogue, including whether you are aware of any intention by them to challenge your use of their technology and/or pursuer legal action against you to breach of contract and/ or infringement.**

Response: We have expanded our disclosure of Patents and Intellectual Property starting on page 41.

45. **We note your disclosure on page 33 that the disposable kit is an "integral, critical component of the FMS" and consist of a proprietary cleaning solution. Please disclose whether you may have any intellectual property rights to the cleaning kit and the cleaning solution.**

Response: We added disclosure on page 43 to clarify that we do not own patent rights on the cleaning kit and solution.

46. **Please disclose the material terms of Mr. Ryan's consulting agreement with you, including the amount of cash and warrants you provided to Mr. Ryan in exchange for the assignment of intellectual property rights, the amounts you are obligated to compensate him for consulting services and any payments required upon a change in control. Also clarify when you anticipate completing the expected filing of the "CIP" mentioned here, including any steps that you need to complete before making that submission.**

Response: We added disclosure to page 42 on the material terms of Mr. Ryan's consulting agreement.

The Disposable Cleaning Kit, page 33

47. **Please clarify how you will "ensure that only our fluid will be utilized following procedures." For example, will the system only operate with a kit and fluid made by you or could medical providers use kits and fluids made by others?**

Response: We added disclosure on page 43 to clarify how we will encourage that our fluid be utilized following procedures.

48. **We note the disclosure on page 37 regarding the establishment of extensive training and services standards for the persons who will service and install your FMS. Please clarify whether users of this system will also require training, including with respect to the installation and use of the disposable cleaning kit.**

Response: We added disclosure on page 49 regarding training for users of our system.

Drainage Systems, page 35

49. We note the disclosure under this caption. Explain the current status of these technologies, including whether they have received FDA approval and the extent to which they are currently in use in hospitals. Please also disclose this information under the caption "Current Techniques of Collecting infectious Fluids" beginning on page 29. Under the caption "Products", compare your system with those already developed that dispose of infectious fluids directly into the sanitary sewer.

Response: We added disclosure of other competitive products currently on the market including a competitive key feature comparison chart on page 39.

Current Competition, Technology and Costs, page 35

50. Please disclose your competitive disadvantages with equal prominence as you disclose your perceived competitive advantages. For example, we note your disclosure that the current standard of care involves the collection, retention, and disposal of fluids using canisters and that the large and growing market for suction canisters that is currently served by entities with significantly greater financial resources. Therefore, it appears you may have difficulty penetrating the existing market for canisters and having your product adopted as a standard of care.

Response: We added disclosure to page 46 regarding our competitive disadvantages.

Handling Costs, page 36

51. Please clarify how your products would reduce disposal and sterilization costs entirely, as noted here, given your disclosure on page 37 regarding the need to dispose of suction tubing and the cleaning solution.

Response: We amended the disclosure on page 40 to remove the indication that our products would reduce disposal and sterilization costs entirely.

Competitive Products, page 37

52. Compare and contrast your proposed products with systems that dispose of fluids directly into sanitary sewers and are apparently already on the market and in use in hospitals.

Response: We expanded our disclosure and included a competitive comparison on page 48.

Distribution, page 37

53. **Explain the basis for the focus of your marketing effort described in the second paragraph. It appears that there are other products already being marketed that are capable of disposing on infectious fluids without direct handling by healthcare workers. It is also not clear why you believe your technology "represents a breakthrough" and will be "widely acclaimed" and "quickly adopted." Please expand to discuss.**

Response: We expanded our disclosure on our marketing efforts starting on page 48.

54. **It appears from your disclosure on pages 31,33 and here that you have not entered into any agreements related to the distribution or installation of your products, begun marketing efforts or demonstrated your product to potential customers. It also appears that no distributors or independent contractors are currently capable of, or have been trained in, the service and installation of your products. If that is correct, please revise your disclosures to state so directly.**

Response: We added disclosure on page 49 to clarify that there are currently no installation companies contracted or trained to install our product.

Pricing, page 38

55. **Please clarify how the prices "for the FMS and its disposable cleaning kit will reflect a cost saving to the hospital over its current procedure costs." For example, explain how the undetermined installation and labor costs and disposal required for suction tubing and empty cleaning solution factor into that statement. Also explain how your costs compare with automated disposal systems marketed by Waterstone Medical, Dornach Medical Systems, and Stryker.**

Response: We expanded disclosure on page 49 to clarify how our FMS will reflect cost savings.

56. **Please provide investors with a comparison of the anticipated per-procedure costs to end users of your disposable cleaning kit as opposed to your competitors' canisters.**

Response: We added disclosure relating to such comparison on page 50.

Engineering and Manufacturing, page 39

57. **Please disclose the material terms of your relationship for the engineering and manufacturing of your product. For example, do you have a long-term production contract that guarantees the production of a minimum number of units or could the manufacturer choose to prioritize its capacity for other customers, reduce or eliminate deliveries to you on short notice or increase the prices charged to you. If you have entered into a written agreement, please file it as an exhibit.**

Response: We expanded disclosure of our relationship for the engineering and manufacturing of our product on page 50.

58. **As a related matter, please clarify to which of your products the manufacturing relationship noted here relates. Will this third party make your wall mount unit, disposable cleaning kit or both? Your revised disclosure should clearly state who will perform the manufacturing of each of your principal products.**

Response: We added disclosure regarding our products to which the manufacturing relationship relates on page 50.

Government Regulation, page 39

59. **We see the contingency regarding the FDA submission described at the bottom of page 39. Please add footnote disclosure about this contingency and the potential impact on your business and financial statements. It appears that MD&A should present appropriate disclosure about this contingency. Please revise.**

Response: We revised the disclosure throughout the registration statement, including adding such disclosure to the MD&A, to clarify the contingency regarding the FDA submission.

60. **Briefly describe the 510(k) process and the finding the FDA makes when it clears a device under section 510(k).**

Response: We added disclosure on the 510(k) process and the FDA clearing process starting on page 51.

61. **Include in your disclosure a description of the following FDA statutory and regulatory requirements:**

- **Device classification information;**
- **Registration and labeling requirements;**
- **Advertising and promotion;**
- **Quality system regulation and manufacturing of the device; and**
- **Post- market reporting and record- keeping requirements, including medical device reporting and reports of corrections or removals;**

Provide similar disclosure regarding regulations in foreign jurisdictions in which you will seek to do business.

Response: Since the FDA device classification, registration and labeling requirements are extensive, we provided information on page 53 on where to obtain the information requested above.

62. We note your disclosure here regarding seeking approval from the Underwriters Laboratories. Please:

- **Clarify whether you have submitted your application yet and when you expect to seek approval from the Underwriter Laboratories;**
- **Disclose what steps you have taken and must take in the future to secure that approval, including any hurdles you will need to overcome; and**
- **Describe the consequences and risks from failing to secure such approval.**

Response: We added disclosure to page 51 on our application for electrical safety testing and certification where we addressed the bullet points above.

63. Please clarify when you anticipate submitting your application to the FDA. Also clarify the products covered by this application. For example, will it include your wall mount unit, disposable cleaning kit and proprietary cleaning solution?

Response: We added disclosure starting on page 51 regarding submitting our application to the FDA and clarifying the products covered by the application.

64. Please explain the business purpose for and file this restructuring agreement as an exhibit. We may have further comments.

Response: We explained the purpose of the restructuring agreement throughout the document and attached the agreement as Exhibit 10.42.

65. Regarding the disclosure of the transaction to be effected if you do not obtain FDA approval by the end of August 2009, please:

- **Indentify the "majority-in-interest of investors" and Founders";**
- **Disclose the number and percentage of outstanding stock held by each;**
- **Clarify who will comprise the "majority- in-interest of investors" after the transaction registered here is completed;**
- **Tell us, with a view toward disclosure, whether your shareholders will be entitled to vote on the asset sale mentioned on page 39 and reverse merger or entitled to vote on the asset sale mentioned on page 39 and reverse merger or similar transaction mentioned on page 40;**
- **Disclose whether a "reverse, merger or other similar transaction" is currently being negotiated or considered by you;**
- **Disclose the purpose and effect of each of the transaction mentioned here; and**
- **Explain the purpose of this agreement.**

Response: We revised our disclosure on pages 53 and 54 to address each bullet point listed above.

66. Clarify in bullet two whether "all Company stock" will be cancelled, or only that company stock held by the "Founders".

Response: We clarified our disclosure to state that all Company stock held by the Founders only will be cancelled and that ownership of the Company's stock held by the Investors would not be affected.

67. The last paragraph regarding modification of your private placement memorandum is not clear since the offering has already taken place. Please explain your intent.

Response: We revised our disclosure to state that our private placement memorandum has been modified already. It was modified so that the private placement memorandum would contain complete disclosure since it may be distributed for informational purposes in the future.

Directors, Executive Officers, Promoters and Control Persons, page 41

68. Please indentify and discuss the business experience of the members of the medical advisory board mentioned on page 34. Also disclose the principal functions performed by that board and the material terms of agreements you have with its members.

Response: We revised our disclosure on page 60 to add the business experience of, and material agreements with, the Medical Advisory Board members.

69. Please disclose the term of office for each of your directors.

Response: We have not set terms of office for any of our directors and have added disclosure to page 58 to reflect this.

Summary Compensation Table, page 44

70. It appears from your disclosure on page 50 that during 2007, Messrs. Davidson and Rice agreed to waive accrued and unpaid salaries in exchange for stock options. Please tell us how your summary compensation table accounts for that agreement. Refer to Instruction 2 to Item 402(n)(2)(iii)and(iv)

Response: We added footnote disclosure to the Summary Compensation Table to reflect unpaid salary, and the reasons therefore, in exchange for stock options for Messrs. Davidson and Rice.

Outstanding Equity Awards at Fiscal Year- End, page 44

71. We note the disclosure that you have made no equity awards during the fiscal-year ended December 31, 2007. Please note that Item 402(p) of Regulation S-K requires disclosure of equity awards outstanding at fiscal-year end, not simply those that were made during that fiscal year. Please revise, as appropriate. Also reconcile your current disclosure with your disclosure on page 50 regarding the options granted to your named executives during 2007.

Response: We added an Outstanding Equity Awards Table to page 62.

Employment Agreements…page 44

72. Reconcile the amounts in employment agreements with the amount in the summary compensation table, and explain the differences. Also disclose whether the funding targets have been achieved and what salary each of your named executives earned during your 2007 fiscal year. In this regard, please note that Item 402 of Regulation S-K requires clear disclosures of all compensation earned by your named executives.

Response: The amounts reflected in the descriptions of the employment agreements for Mr. Davidson and Mr. Rice differ from the amounts disclosed in the Summary Compensation Table because the Company did not pay them their full salaries due to lack of funds. We added disclosure to this effect on page 63.

73. Please ensure that the disclosure regarding your compensation arrangements is complete. We note that you have not disclosed the bonus shares to be issued to Mr. Davidson that are discussed in section 4.b. of exhibit 10.1. We also note that you have not discussed the waiver of accrued salary and stock option grants mentioned on page 50.

Response: We expanded disclosure of our compensation arrangements on page 63.

74. Please disclose the number of shares acquired by Mr. Ruwe in connection with his investment of $200,000.

Response: We added disclosure on page 67 of the number of shares acquired by Mr. Ruwe in connection with his investment.

Corporate Governance, page 49

75. We note that you believe Mr. Gadbow is considered "independent" under Nasdaq Marketplace Rule 4200. Please tell us how you reached this conclusion, given your disclosure on page 41 and in exhibit 10.13 that Mr. Gadbaw was employed by you until August 2008. Please refer to Nasdaq Marketplace Rule 4200(a)(15)(A). Also tell us how your conclusion regarding Mr. Morawetz's independence considers the nature of your relationship with him, as noted on page 50.

Response: We revised our disclosure on page 68 to reflect that Mr. Gadbaw is not considered to be an independent director.

Certain Relationships and Related Transactions, page 50

76. Please provide financial statements disclosure about the transactions described in the third paragraph. In that regard: (1) provide a description of the arrangements with your directors/ officers, (2) disclose how you accounted for the arrangements, (3) disclose the basis in GAAP for the accounting and (4) disclose the fair value assigned to the equity instruments granted. If this disclosure is related to the "elimination" of accrued salaries described in MD&A, please revise the filing to reconcile the amounts on page 50 to the S336,600 disclosed in MD&A.

Response: Financial statement disclosure has been made for the accrued payroll given up by the Company's officers, including a description of the arrangements, accounting and fair value. The correct amount of the accrual was entered to the MD&A.

77. Please file as an exhibit a written summary of the oral agreement with Mr. Morawetz. Also describe the services rendered in view of the fact that you have no product available to market or sell.

Response: We have prepared a written summary of the oral agreement with Mr. Morawetz and described the services he rendered to the Company We have not included the summary as an exhibit because the written oral agreement summary has not yet been approved by both parties.

78. Please clarify your disclosure regarding Mr. Morawetz by discussing the registrant's relationship with him separately.

Response: We have added a paragraph on page 69 to clarify our relationship with Mr. Morawetz.

79. We note the disclosure in the last paragraph on page 50 regarding the waiver of accrued and unpaid salaries. This disclosure indicates that the amounts owed by you were waived by December 2007 with the exception of fees owed to Mr. Morawetz. However, your disclosure on page 3 indicates that these unpaid salaries and fees continued to accrue though June 30, 2008. Please revise or advise.

Response: The accrual of unpaid salaries from December 2007 to June 2008 was a separate issue from the earlier accrual and waiver from inception through November 2007. Accrued salaries for May and June 2008 were subsequently paid from funding proceeds, leaving an unpaid accrual from December 2007 through April 2008 outstanding to be paid when funds are available. We added disclosure on page 69 to explain this.

80. Please revise the last paragraph to discuss each related party individuality, including the amount of unpaid salary waived and the number of shares and options received. Reconcile the options disclosure here with the disclosure in the beneficial ownership table for these individuals.

Response: We added this disclosure to page 69.

81. Also include in your revised disclosure a description of the material terms of the severance agreement between you and Mr. Gadbaw, filed as exhibit 10.4. For example, we note that your current disclosure does not indentify the yearly stock option grant mentioned in paragraph 4 or the acceleration of payments mentioned in paragraph 2.b. Please also file copies of the agreements governing the waivers as exhibits.

Response: We added additional disclosure on page 69 regarding the terms of Mr. Morawetz's severance agreement.

82. Please note that information set forth Item 404 of Regulation S-K is required to be disclosed if a transaction resulted in the person becoming a 5% shareholder or continues after that date, such as through the ongoing receipt of payments. It appears from your disclosure on pages 27, 51and 52 that several of your selling shareholders beneficially own more than 5% of your common shares. Therefore, please expand your disclosure here to provide the information required by Item 404 with respect to the transaction that resulted in their becoming a related party.

Response: We have included this disclosure on page 69.

83. Please tell us why you have not provided the information required by Item 404 of Regulation S-K with respect to:

- **The transactions noted in exhibits 10.15-10.18; and**
- **The transaction in which Mr. Ruwe acquired your warrants, as noted on page 51.**

Response: We have included this disclosure on page 69.

Selling Security Holders, page 51

84. Given the nature and size of the transaction being registered, advise the staff of the company's basis for determining that the transaction is appropriately characterized as a transaction that is eligible to be made on shelf basis under Rule 415(a)(1)(i).

Response: Please see Schedule 1, which is attached to this letter.

85. We note your disclosure in the first paragraph regarding the lack of material relationships between you and the selling shareholders. Please tell us how this disclosure considers the referral, consulting, finder and investor relations agreements mentioned on page II-6 and filed as exhibits.

Response: We have added footnotes describing the relationships between certain selling shareholders and the Company.

86. Please describe in this section the transactions in which the selling shareholders acquired the offered shares. Include the date of the transaction and the amount of consideration received.

Response: We have updated this section accordingly.

87. Please tell us whether any if the selling shareholders are broker- dealers. A selling shareholder who is a broker- dealer must be indentified in the prospectus as underwriter. In addition, we note your disclosure that none of the selling shareholders are or were affiliated with registered broker- dealers. Please tell us whether any of selling shareholders are affiliated with <u>any</u> broker- dealer. A selling shareholder who is an affiliate of a broker- dealer must be identified in the prospectus as an underwriter unless that selling shareholder is able t o make the following representations in the prospectus.

- **The selling shareholders purchased the shares being registered for the resale in the ordinary course of business, and**
- **At the time of the purchase, the selling shareholder had no agreements or understandings, directly or indirectly, with any person to distribute the securities.**

Please revise as appropriate.

Response: We have revised the disclosure to indicate there are no relationships with any broker-dealer.

88. Please indentify the natural persons with voting and/or dispositive powers with respect to the shares to be offered and sold by Egavnit LLC.

Response: We have added this disclosure to the Selling Security Holder Table.

89. Please reconcile your disclosures here and on page II-6 regarding the number of shares underlying warrants held by Jeremy Roll.

Response: We have revised the disclosure accordingly.

<u>Security Ownership of Certain Beneficial Owners and Management, page 56</u>

90. Please reconcile your disclosures in note 11 and on page 51 regarding the number of shares underlying warrants held by James R. Taylor. Also reconcile your disclosure in notes 12 and 13 and on pages 51 and 66 regarding the number of common shares held by RP Capital LLC. Also tell us why the number of shares underlying warrants held by RP Capital, as noted on page 51, was excluded from your disclosure here.

Response: We have reconciled these disclosures. Common shares underlying warrants that were not exercisable within 60 days were not included in the Security Ownership Table, but were included in the Selling Security Holder Table.

<u>Warrants and Convertible Notes, page 58</u>

91. Please tell us how you determined that Mr. McGoldrick holds 23, 942 shares underlying options. We note that exhibit 10.7 indicates that his option grant was for 10,000 shares.

Response: Pursuant to Mr. McGoldrick's stock option agreement, he is entitled to receive options to purchase 10,000 shares of our common stock for each year of service. As of the date of this registration statement, Mr. McGoldrick has earned options to purchase 40,000 shares of our common stock, or 23,942 shares post-split.

Warrants and Convertible Notes, page 58

92. Please clarify why the imposition of monetary penalties related to the July 2007 convertible note financing is tied to the registration rights granted in your August 2008 private placement. Also disclose the amount of monetary penalties that you may owe.

Response: We added disclosure on the potential penalties to page 79.

Legal Matters and Interests of Named Experts, page 66

93. Expand to state the total number of shares and warrants currently held by all affiliates of the law firm and the number that are being registered in this offering that are beneficially owned by Richardson & Patel, Mr. Richardson, Mr. Patel, RP Capital, and other affiliates. Reconcile the amounts with those listed in the selling shareholder table. We may have further comments.

Response: We have added this disclosure to page 86.

Financial Statements

Interim Financial Statements for the six months ended June 30, 2008, page F-1

94. We see that you included the consent of your independent registered public accounting firm on page F-2. Note that the consent should be filed as an exhibit to your registration statement, as specified in Item 601 of Regulation S-K. Please revise to remove the consent from this section and to present the consent as an appropriately numbered exhibit.

Response: We filed the Consent of Independent Registered Public Accounting Firm as Exhibit 23.1 to our Form S-1 filed on November 12, 2008. We have also included the consent in the body of the S-1 at the request of our auditors.

95. Please update the financial statements as required by Rule 8-08 of Regulation S-X.

Response: We have provided financial statements as of September 30, 3008 with the filing of this Amendment 1 as required by Rule 8-08 of Regulation S-X.

96. Please revise to remove the label "audited" from the top of the balance sheet, statement of operations and statement of cash flow as of and for the year ended December 31, 2007, since full audited financial statements, including an audit opinion, are not included in the interim presentation.

Response: Our auditors have requested that we leave the label "audited" from the financing statements containing December 31, 2007 disclosures.

Statement of Stockholders' Equity (Deficit), page F-5

97. Please revise so that the amount of Total Stockholders' Equity (Deficit) as of June 30, 2008 agrees to the corresponding amount presented on the face of the Balance Sheet as of that date. As a related matter, the column for Accumulated Deficit does not appear to be mathematically accurate. Please verify the mathematical integrity of any updated financial statements.

Response: The Stockholders' Equity (Deficit) as of September 30, 2008 corresponds to the amount on the face of the Balance Sheet as of the same date.

98. Please revise to present a Statement of Stockholders' Equity (Deficit), showing from inception:

- **For each issuance, the date and number of shares of stock, warrants, rights, or other equity securities issued for cash and for other consideration.**
- **For each issuance, the dollar amounts (per share or other equity unit and in total) assigned to the consideration received for shares of stock, warrants, rights, or other equity securities. Dollar amounts should be assigned to any noncash consideration received.**
- **For each issuance involving noncash consideration, disclosure the nature of the noncash consideration and the basis for assigning amounts.**

This analysis should be presented in the form of reconciliation of the beginning balance to the ending balance for each period since inception. Please note that the issuances should not be combined except for separate issuances of equity securities within the same fiscal year for the same type of consideration and for the same amount per equity unit. Refer to paragraph 11(d) of SFAS 7 and Rule 3- 04 of Registration S-X.

Response: The Statement of Stockholders' Equity (Deficit) as of September 30, 2008 has been prepared as requested above.

99. In addition, we see that the effect of the reverse stock split instituted on 6/6/08 is reflected as a separate line item in the Statement of Stockholders' Equity (Deficit). Under SAB Topic 4C, changes in capital structure such as a reverse stock split must be given retroactive effect, even if the change occurs after the date of the balance sheet. An appropriately cross-referenced note should disclose the retroactive treatment, explain the change made and state the date the change became effective. Please revise for all applicable stock splits.

Response: We have revised the Statement of Stockholders' Equity (Deficit) so that all entries are now post- split with no separate line item.

Statement of Cash Flows, page F-6

100. We see that you issued common stock for cash proceeds of $824,534 in the six months ended June 30, 2008. Please revise to provide footnote disclosure that fully describes the transaction, including all significant terms of the equity instruments issued.

Response: A footnote for the proceeds in the nine months ended September 30, 2008 describing the investment has been added to page F-6.

Note 1. Summary of Significant Accounting Policies, page F-7

101. Please revise to provide an affirmative representation that the interim financial statements include all adjustments that, in the opinion of management, are necessary in order to make the financial statements not misleading. Refer to Rule 8-03 of Regulation S-X.

Response: We have added the above statement under Accounting Estimates on page F-8.

102. We note disclosure on page 32 that you recently completed and executed an agreement to secure the assignment of patent-pending product and rights from an inventor in exchange for cash, warrants and future royalties. Please expand the notes to financial statements to describe the transaction, the rights and assets acquired and the accounting applied. Your disclosure should fully describe all significant terms of the warrants, the fair value assigned to those warrants and how that fair value was determined.

Response: We have added disclosure to page F-8 under Patent and Intellectual Property including the fair value of the warrants and the basis for the fair value.

Note 3. Stock Options and Warrants, page F-7

103. Please add footnote disclosure that describes all significant terms and provisions of the 2.6 million warrants issued in the first six months of 2008. In the regard, (1) describe the transaction(s) leading to the issuances, (2) clarify whether the warrants were sold in financing arrangements or were issued in compensatory arrangements, (3) describe any terms or provisions that may lead to changes in exercise prices or the number of warrants outstanding, (4) describe any cashless exercise provisions, (5) describe any registration obligations and (5) describe any liquidated damages or potential penalties that you may incur under the arrangement(s). Also disclose how the warrants were valued and accounted for, including the model(s) and all significant assumptions. The list is not intended to be comprehensive and your disclosure should be based on the terms and provisions of the underlying agreements. The substance of this comment also applies to warrants issued in annual periods and subsequent on June 30, 2008.

Response: We have added disclosure starting on page F-9 that discloses all significant terms of the now 4.5 million warrants issued in the offering and all other warrants to inception.

104. We see from page 44 that in June 2008, it was agreed that Mr. Davidson would be issued options to purchase 543,292 shares of common stock exercisable at $.01 upon completion of the first $1 million of new funding raised. It appears that this funding may have been received in the third quarter of 2008. Please add footnote disclosure to describe the arrangement, including the performance obligation, and to describe the terms of the options. Disclose how these options have been or will be recorded in your financial statements, as applicable.

Response: Disclosure regarding Mr. Davidson's performance stock options were added to page F-12.

Note 6. Long-term Debt, page F-9

105. The tabular information indicates that a $100,000 note matures in 2012. However, the last sentence of the footnote appears to suggest that the maturity date is 2013. Please reconcile here and on page 23.

Response: The correct maturity date of 2012 was applied to the tables on page F-15 and in the MD&A.

Consolidated Financial Statements for the year ended December 31, 2007

Report of Independent Registered Public Accounting Firm, page F-11

106. Please have your auditors revise the second paragraph of their audit report to state that the audit was performed in accordance with "the standards of the Public Company Accounting Oversight Board (United States)."

Response: Our auditors have revised their audit report accordingly.

107. Please also revise the report to include the signature or name of the independent registered public accounting firm.

Response: Our auditors have included their conformed signature to the audit report.

108. We see that you are a development stage business with recurring losses, operating cash flow deficits and no revenues. Please have your auditors tell us how they evaluated the requirements of AU Section 341 in concluding that the audit report should not include a paragraph regarding going concern with accompanying footnote disclosure as specified in the referenced guidance.

Response: According to our auditors in their evaluation of the requirements of AU Section 34, because we are a development stage business and are identified as such on the opinion, there is no need to add going-concern language. Our auditors further indicated that this is a common practice in the industry.

Balance Sheet, page F-13

109. We see from Note 5 and Note 6 that certain of your notes payable and long-term debt are convertible into shares of your common stock. Please revise to accurately label convertible debt as convertible on the face of your balance sheet, as applicable.

Response: The Balance Sheet has been annotated as such.

Statement of Stockholders' Equity (Deficit), page F-15

110. Please revise to present a Statement of Stockholders' Equity (Deficit), showing from inception:

- **For each issuance, the date and number of shares of stock, warrants, rights, or other equity securities issued for cash and for other consideration;**

- **For each issuance, the dollar amounts (per share or other equity unit and in total) assigned to the consideration received for shares of stock, warrants, rights, or other equity securities. Dollar amounts should be assigned to any noncash consideration and the basis for assigning amounts.**

This analysis should be presented in the form of a reconciliation of the beginning balance to the ending balance for each period since inception. Please note that issuances should not be combined except for separate issuances of equity securities within the same fiscal year for the same type of consideration and for the same amount per equity unit. Refer to paragraph 11(d) of SFAS 7 and Rule 3-04 of Regulation S-X.

Response: The Shareholders' Equity/Deficit on page F-21 has been revised as requested.

111. As a related mater, we see in Item 26 (Recent Sales of Unregistered Securities) that you have issued shares and other equity instruments in exchange for assets, services and in connection with borrowings and other financing arrangements with both related and unrelated parties. For other than employee stock options, please expand the notes to financial statements to describe the individual transactions, to describe the consideration received by the Company and to disclose how the equity instruments issued in those transactions were accounted for and valued. We may have further comment on your accounting for these transactions after you have provided us the revised disclosure. The expanded disclosure should be readily reconcilable to disclosure in the revised Statement of Stockholders' Equity (Deficit).

Response: We have expanded the financial statements to include the requested transactions starting on page F-10.

112. We see that the Board of Directors approved reverse stock splits on June 6, 2008 and October 20, 2008. Please clarify whether the equity information included in the Statement of Stockholders' Equity (Deficit) is on a post-split basis. Under SAB Topic 4C, changes in capital structure such as a reverse stock split must be given retroactive effect, even if the change occurs after the date of the balance sheet. An appropriately cross-referenced note should disclose the retroactive treatment, explain the change made and state the date the change became effective. Please revise as appropriate for all splits. All per share information included in the footnotes (for instance for stock options) should be similarly retroactively restated.

Response: The equity information included in the Statement of Stockholders' Equity/Deficit has been restated to reflect post stock-split numbers. All stock options and warrants throughout the S-1 Amendment have been restated in a similar manner. A note has been added to pages F-9 and F-24 under Stock Options and Warrants disclosing this.

Statement of Cash Flows, page F-16

113. Tell us why the change in notes payable to shareholder is included as an operating cash outflow. Cash flows from notes payable are normally financing activities under SFAS 95. Please revise or advise how the presentation conforms to SFAS 95.

Response: The Statement of Cash Flows Tables have been revised to reflect the notes payable to shareholder as a financing activity.

Note 1. Summary of Significant Accounting Policies, page F-17

114. We see that you have capitalized $113,056 of patent costs. Please revise to disclose the nature of the patent costs capitalized as an intangible asset. Please note that costs of internally developing intangible assets that are not specifically identifiable, that have indeterminate lives, or that are inherent in a continuing business and related to an entity as a whole are expensed as incurred pursuant to the requirements of SFAS142. Generally, only legal fees and similar costs relating to patents, copyrights, and trademarks may be capitalized. Please advise.

Response: Only legal and similar fees have been capitalized. The notes under Intangible Assets have been updated to include this disclosure.

115. Tell us why the patent costs should not be expensed as research and development.

Response: We believe patent costs should not be expensed because they comply with SFAS142. As stated in Question 114 above, they consist solely of legal and similar fees.

Note 3. Stock Options and Warrants, page F-17

116. You disclose that you use the calculated value method to value stock options. Under SFAS 123(R) that method is defined as a measure of the value of a share option or similar instrument determined by substituting the historical volatility of an appropriate industry sector index for the expected volatility of a nonpublic entity's share price in an option-pricing model. Your disclosure suggests that you did not apply a measure of volatility since that measure is zero. Tell us why your volatility assumption is appropriate under the guidance set forth in paragraphs A43 through A48 of SFAS 123(R). Please also refer to the guidance about volatility set forth in SAB Topic 14. your response should fully demonstrate that you have appropriately applied SFAS 123(R) in establishing a volatility assumption.

Response: We are still analyzing this matter and will address it in a future Form S-1 Amendment.

117. As a related matter, SFAS 123(R) calls for numerous disclosures as set forth in paragraphs A240 and A241 that are required for both employee and non-employee transactions. Also note that you should comply with all disclosures applicable to a public company as a result of your registration statement. Your disclosures do not appear complete under the cited guidance. Please appropriately revise.

Response: We are still analyzing this matter and will address it in a future Form S-1 Amendment.

118. Your filing indicates that you have applied the Black-Scholes Merton method for options, but appears to be silent with respect to warrants. Please make all relevant valuation disclosures about warrants required by SFAS 123(R).

Response: Warrants are included in the application of the Black-Scholes Merton method.

119. Tell us the common share fair values used in applying the Black-Scholes model for options and warrants granted in 2007 and 2008 and tell us how you determined those common share fair values. Specifically address the common share fair values applied in valuing the options granted to Mr. Davidson and the 2.6 million warrants both issued in 2008. If those common share fair values are less than the per share prices realized in your recent private placement, please provide us an analysis that explains the basis for the common share fair value used for Black-Scholes purposes.

Response: The common fair values used in applying the Black-Scholes model for options and warrants granted in 2007 and 2008 were based on recent, prevailing stock purchase transactions. For Mr. Davidson, the common share fair values were, pursuant to his employment agreement, $.35 per share, based on the estimated offering price and the 4.5 million investor warrants common share values of $.46 per share were also based on the estimated offering price. As noted on the cover page of the S-1, we estimate the offering price to be between $.35 to $.46 per share.

120. Please note that under the definitions in the Glossary t SFAS 123(R) you are no longer a non-public entity as of the filing date of the Form S-1. Accordingly, any share options or similar instruments issued on or after that date should be valued and accounted for under the guidance applicable to public companies under SFAS 123(R). That is, you should not use the calculated value method for instruments issued or modified on or after November 12, 2008. Refer to SAB Topic 14 for further guidance.

Response: We are still analyzing this matter and will address it in a future Form S-1 Amendment.

121. We see that in October 2007, the exercise price of the $2.00 warrants increased to $2.25. Please revise to disclose all of the significant terms and conditions of the warrants, including a discussion of the provision leading to the change in exercise prices. Also disclose how you accounted for the change. In addition, tell us why the warrants are still included in the table on page F-18 at a $2.00 exercise price.

Response: A disclosure was added to Stock Options and Warrants Section. All tables showing such warrants have been adjusted to the price of $3.76 ($2.25 pre-split). As of October16, 2008, these warrants have expired.

Note 5. Note Payable, page F-19

122. We see that your convertible debenture matures in 2007. Since the financial statements are as of December 31, 2007, please revise to update this disclosure and state whether the maturity date has been extended, the amount is past due or otherwise how you plan to settle the outstanding debt.

Response: This issue has been addressed under Note 5-Notes Payable on page F-25.

Part II

Item 26. Recent Sales of Unregistered Securities, page II-4

123. Please ensure that your description of unregistered sales of securities during the past three years is complete. We note, for example, that you have not included the information required by Item 701 of Regulation S-K with respect to the August 2008 private placement noted on pages 3, 4 and 27 and the March 2007 convertible loan financing mentioned on page 3 and 23. You have also not disclosed the information required by Item 701 of Regulation S-K with respect to the shares acquired by Mr. Ruwe in exchange for his $200,000 investment noted on page 46 or the transactions referenced in exhibits 10.15-10.19.

Response: We have updated this section accordingly.

124. Please disclose the information required by Item 701 of Regulation S-K with respect to each unregistered sale of your securities. We note that many of the unregistered sales you disclose do not identify the nature and amount of consideration provided. We also note that none of the unregistered sales you disclose identify the exemption relied on and factual basis supporting that exemption.

Response: We identified the nature of consideration provided for each unregistered sale of securities starting on page II-4. We also added disclosures starting on page II-4 to describe the exemption(s) relied on and factual basis supporting the exemption(s).

125. As of June 30, 2008, your balance sheet states that there are 3,644,524 shares issued and page 1 of the prospectus states there are 8,163,687 shares outstanding. Please reconcile, and ensure that all issuances are disclosed here.

Response: We have updated this section accordingly.

Item 28. Undertakings, page II-8

126. Please include the full undertaking required by Regulation S-K Item 512(a)(5)(ii). Also, please note that due, in part, to the language of Securities Act Rule 430C(d), the undertaking included in Item 512(a)(6) of Regulation S-K should be included in filings for initial public offerings. Please revise your filing to include that undertaking.

Response: We revised our Undertakings Section on page II-8 to include the information requested.

Signatures, page II-10

127. Please indicate below the second paragraph of text which individual signed in the capacity of principal accounting officer or controller.

Response: Our Principal Financial Officer, Gerald Rice, has signed in the capacity of Principal Accounting Officer and we have added this to his title on page II-10.

Exhibits

128. Please file as exhibits:

- **the 2008 Stock Option Plan mentioned on page 46. Also revise your document to include disclosure of the material terms of the plan;**
- **the employment agreement with Mr. Dauwalter that is noted on page II-6; and**
- **the documents governing the $170,000 convertible bridge loan mentioned on pages 22 and 59;**

Response: The 2008 Equity Incentive Plan has been filed as Exhibit 10.35 to our Form S-1 filed on November 12, 2008. We have filed Mr. Dauwalter's employment agreement and the amendment thereto as Exhibits 10.37 and 10.38 to our Form S-1/A. We have filed the bridge loan documents as Exhibits 10.43 through 10.45. Please note that the principal amount of the document is erroneously listed as $150,000 as lenders had oversubscribed to the financing by $20,000 but this has yet to be memorialized.

129. Please tell us which exhibit relates to the warrants issued in your August 2008 financing. We note that exhibit 10.34 includes a year 2007 date of issuance.

Response: The "August 2008 financing" commenced in July 2007 and continued through a series of closings, the last one of which closed in October 2008. Hence we now refer to the financing as the "October 2008 financing" but the warrant has a 2007 date of issuance.

130. Please file complete exhibits to this registration statement. As one example, we note that exhibit 10.32 currently omits Schedule A.

Response: There was no Schedule A to the Registration Rights Agreement (Exhibit 10.32), the Escrow Agreement (Exhibit 10.33) or the Note Purchase Agreement (new Exhibit 10.43). The recitals to such agreements erroneously made reference, but the Schedules were never completed. All parties who signed these agreements and the Subscription Agreement as part of the October 2008 financing are included in this registration statement.

Exhibit 3.1

131. Please ensure that the exhibits you file are correct and current. We note, for example, that exhibit 3.1 lists the number of authorized shares as 10 million and does not appear to include subsequent amendments that changed your authorized share capital, such as those described on pages 2 and 25. Also note that when you amend your charter and bylaws, you should file a complete copy of the document as amended rather than require investors to piece together documents from multiple exhibits. See Regulation S-K Item 601 (b)(3).

Response: We will file an amended Articles of Incorporation reflecting the new authorized share amount as an amendment to this Form S-1/A.

Exhibit 23.1

132. Please include a currently dated and signed consent from your independent auditors prior to requesting effectiveness.

Response: We have included a currently dated and signed consent from our independent auditors.

Schedule 1

Rule 415(a)(1)(i) Analysis

Rule 415(a)(1)(i) provides in relevant part that securities may be registered for an offering to be made on a continuous or delayed basis in the future, provided that the registration statement pertains only to securities which are to be offered or sold solely by or on behalf of persons other than the registrant. The Company respectfully submits that all the shares registered for resale under the Registration Statement are covered by Rule 415(a)(1)(i) because (i) all the securities will be offered or sold solely by security holders of the Company and not by the Company; and (ii) none of the security holders is acting on behalf of the Company.

Each of the selling shareholders is acting on its own behalf and not on behalf of the Company. Each of the selling shareholders has the full economic and market risk at least for the period from the date of purchase to the effective date of the Registration Statement, which has not yet occurred. The selling shareholders purchased the shares for investment purposes and not with a view to distribution. There are no indicia that any of the selling shareholders is engaged in a "distribution." A distribution is defined under Regulation M as an offering of securities that differs from normal trading activities for reasons that include special selling efforts and selling methods. To the knowledge of the Company, none of the selling shareholders is making any special selling efforts, utilizing any special selling methods, or entering into any agreements, understandings or arrangements with any underwriter, broker-dealer, or other person or entity with respect to the sale of the shares covered by the Registration Statement.

Because none of the selling shareholders is acting on behalf of the Company, and because the Registration Statement pertains only to securities being offered or sold by persons other than the Company, the transaction is appropriately characterized as a transaction that is eligible to be made on a shelf basis under Rule 415(a)(I)(i).

Item D.29 of the SEC's Manual of Publicly Available Telephone Interpretations sets forth six factors which an issuer should analyze to determine the application of Rule 415. The Company has analyzed these factors, and believes this analysis provides further confirmation that the sales of securities being registered are appropriately characterized as a transaction that is eligible to be made on a shelf basis under Rule 415(a)(1)(i).

A. How long the selling shareholders have held the shares.

The selling shareholders have held the common stock and warrants for at least three months. 90% of the securities have been held at least six months. During the entire period since the date of acquisition, the selling shareholder has been subject to the full economic and market risks of ownership, with no assurance of the shareholder's ability to sell the shares, either in a liquid market - or at all. This situation is contrary to that of a shareholder that undertakes the purchase of stock "with a view to distribution" or otherwise on behalf of the Company.

B. The circumstances under which the selling shareholders acquired the shares.

Substantially all the shares being registered are issuable to security holders pursuant to the terms of private placement offerings made by the Company to accredited investors within the past year. In this private offering, equity-based securities, including common stock and warrants, were purchased by security holders for cash at a fixed price, and each investor represented to the Company that it was acquiring the securities for its own account, not as nominee or agent, and not with a view toward resale or distribution. From the date of purchase, each of the selling shareholders has borne, and continues to bear, the full economic and market risk of ownership. All of these securities were issued to "accredited investors," and were exempt from registration under Section 4(2) of the Securities Act of 1933, as amended.

C. The selling shareholders' relationship to the issuer.

Other than with very few exceptions which are described in the selling shareholder table, none of the investors in the private placements had any prior relationship with the Company.

D. The amount of shares involved.

The Company currently has 8,180,831 common shares outstanding. We are requesting registration of 7,101,267 common shares and 5,929,482 shares underlying convertible notes or warrants.

We acknowledge that our registration of common shares does exceed 33% of the current public float. However, there is no registering investor in a position to control us either because of the number of shares owned or by contract. We have no selling shareholder with share holdings exceeding 10% of the Company. With these factors, we believe we satisfy Rule 415.

E. Whether the selling shareholders are in the business of underwriting securities.

Among the investors that purchased shares being registered, none is involved in the business of underwriting securities.

F. Whether, under all the circumstances, it appears that the selling shareholders are acting as a conduit for the issuer.

None of the selling shareholders is acting as a conduit for the issuer. Not only do the Company's relationships - or lack of relationships - confirm this, but there is no indication of any kind relevant to acting as a conduit.

Most of the selling shareholders are investors and made an independent investment decision to acquire the shares. The selling shareholders are not in the underwriting business. The private placements were negotiated at arm's length terms with immediate and continuing economic and market risk.

Based on all the facts, circumstances and other matters related to the Registration Statement, including those set forth above, the Company believes and respectfully submits that the transaction covered by the Registration Statement is appropriately characterized as a transaction that is eligible to be made on a shelf basis under Rule 415(a)(1)(i).