FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2013

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________________________ to

Commission File Number: **000-54361**

Skyline Medical Inc.
(Exact name of registrant as specified in its charter)

Minnesota	33-1007393
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2915 Commers Drive, Suite 900	Eagan, Minnesota 55121
(Address of principal executive offices)	(Zip Code)

651-389-4800
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

☒ Yes ☐ No

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

Large accelerated filer ☐ Accelerated filer ☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of November 6, 2013, the registrant had 221,068,939 shares of common stock, par value $.01 per share, outstanding.

SKYLINE MEDICAL INC.

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FINANCIAL INFORMATION
PART 1. FINANCIAL INFORMATION
Item 1. Condensed Financial Statements

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

	September 30, 2013	December 31, 2012
ASSETS		
Current Assets:		
Cash	$ 328,362	$ 13,139
Accounts Receivable, net of Allowance for Doubtful Accounts of $0 in 2013 and $4,073 in 2012.	83,191	39,711
Inventories	101,067	145,209
Prepaid Expense and other assets	34,462	27,409
Total Current Assets	547,082	225,468
Fixed Assets, net	37,491	3,521
Intangibles, net	52,074	140,588
Total Assets	$ 636,647	$ 369,577
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Current portion of convertible debt, net of discounts of $0 and $21,138 (See Note 6)	$ -	$ 1,081,187
Convertible Notes Payable – Related Party (See Note 9)	-	-
Accounts payable	636,085	733,595
Accrued expenses	744,089	1,599,519
Deferred Revenue	5,000	-
Total Current Liabilities	1,385,174	3,414,301
Long-term convertible debt	-	89,300
Accrued Expenses	444,902	-
Liability for equity-linked financial instruments (See Note 8)	15,219	169,179
Total Liabilities	1,845,295	3,672,780
Stockholders' Deficit:		
Common stock, $.01 par value, 300,000,000 authorized, 219,640,021 and 104,247,228 outstanding	2,196,401	1,042,473
Additional paid-in capital	23,138,027	14,945,435
Deficit accumulated during development stage	(26,543,076)	(19,291,111)
Total Stockholders' Deficit	(1,208,648)	(3,303,203)
Total Liabilities and Stockholders' Deficit	$ 636,647	$ 369,577

See Notes to Condensed Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Period From April 23, 2002 (Inception) To September 30,
	2013	2012	2013	2012	2013
Revenue	$ 107,835	$ 51,615	$ 386,418	$ 99,210	$ 687,852
Cost of goods sold	26,181	69,962	135,120	85,478	326,880
Gross Margin	81,654	(18,347)	251,298	13,732	360,972
General and administrative expense	3,195,589	2,518,114	5,906,805	5,034,810	21,657,168
Operations expense	354,027	300,719	763,422	519,019	3,054,003
Sales and marketing expense	164,712	13,508	357,274	74,572	1,418,729
Interest expense	407,516	23,703	629,722	168,462	1,556,178
Loss (gain) on valuation of equity-linked financial instruments	(65,287)	(18,678)	(153,960)	(78,275)	(782,030)
Total expense	4,056,557	2,837,366	7,503,263	5,718,587	26,904,048
Net income (loss) available to common shareholders	$ (3,974,903)	$ (2,855,713)	$ (7,251,965)	$ (5,704,855)	$ (26,543,076)
Loss per common share basic and diluted	$ (0.03)	$ (0.04)	$ (0.06)	$ (0.10)	$ (1.63)
Weighted average shares used in computation, basic and diluted	136,728,212	79,467,603	126,664,802	55,370,243	16,302,589

See Notes to Condensed Financial Statements

SKYLINE MEDICAL INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF STOCKHOLDERS' DEFICIT
PERIOD FROM APRIL 23, 2002 (INCEPTION)
TO SEPTEMBER 30, 2013

	Shares	Amount	Paid-in Capital	Deficit	Total
Issuance of common stock 9/1/02, \$.0167 (1)	598,549	\$ 5,985	\$ 4,015	\$ -	\$ 10,000
Issuance of common 10/23/02, \$1.67/share	2,993	30	4,970		5,000
Net loss				(51,057)	(51,057)
Balance 12/31/02	601,542	\$ 6,015	\$ 8,985	\$ (51,057)	\$ (36,057)
Issuance of common 2/12/03, \$.0167 (2)	23,942	239	161		400
Issuance of common 6/11&12,\$1.67 (3)	21,548	216	34,784		35,000
Net loss				(90,461)	(90,461)
Balance 12/31/03	647,032	\$ 6,470	\$ 43,930	\$ (141,518)	\$ (91,118)
Issuance of common 5/25/04, \$.0167 (4)	6,567	66	44		110
Net loss				(90,353)	(90,353)
Balance 12/31/04	653,599	\$ 6,536	\$ 43,974	\$ (231,871)	\$ (181,361)
Issuance of common 12/14/05, \$.0167 (5)	14,964	150	100		250
Vested stock options and warrants			2,793		2,793
Net loss				(123,852)	(123,852)
Balance 12/31/05	668,563	\$ 6,686	\$ 46,867	\$ (355,723)	\$ (302,170)
Issuance of common 5/16 & 8/8, \$.0167 (6)	86,869	869	582		1,451
Issuance of common 10/19 & 23, \$.0167 (7)	38,906	389	261		650
Issuance of common 12/01, \$1.67 (8)	28,739	287	44,523		44,810
Vested stock options and warrants			13,644		13,644
Net loss				(273,026)	(273,026)
Balance 12/31/06	823,077	\$ 8,231	\$ 105,877	\$ (628,749)	\$ (514,641)
Issuance of common 1/30/07 @ \$1.67 (9)	599	6	994		1,000
Value of equity instruments issued with debt			132,938		132,938
Capital contributions resulting from waivers of debt			346,714		346,714
Vested stock options and warrants			73,907		73,907
Net loss				(752,415)	(752,415)
Balance 12/31/07	823,676	\$ 8,237	\$ 660,430	\$ (1,381,164)	\$ (712,497)
Issuance of common 6/11 to 9/30, \$.35 (10)	4,552,862	45,528	1,547,974		1,593,502
Shares issued to finders, agents	2,012,690	20,127	(20,127)		-
Shares issued to pay direct legal fees	285,714	2,857	(2,857)		-
Issuance of common due to anti-dilution provisions	205,899	2,059	(2,059)		-
Shares issued to pay investor relations services 6/23/08, \$.35	250,000	2,500	85,000		87,500
Vested stock options and warrants			354,994		354,994
Capital contributions resulting from waivers of debt			129,684		129,684
Net loss				(1,762,628)	(1,762,628)
Balance 12/31/08	8,130,841	\$ 81,308	\$ 2,753,039	\$ (3,143,792)	\$ (309,445)
Cumulative effect of adoption of EITF 07-5			(486,564)	6,654	(479,910)
Vested stock options and warrants			111,835		111,835
Shares issued 3/20/09 to pay for fund raising	125,000	1,250	(1,250)		-
Shares issued under PMM in 2009, \$.50	2,147,810	21,478	1,052,427		1,073,905
Capital contributions resulting from waivers of debt			84,600		84,600
Value of equity-linked financial instruments issued in connection with PPMs			(222,296)		(222,296)
Value of equity instruments issued with debt			30,150		30,150
Shares issued to consultant for fund raising	30,000	300	(300)		-
Shares issued upon conversion of debt and interest, \$.27	935,446	9,354	247,100		256,454
Shares issued upon conversion of shareholder note, \$.35	14,024	140	4,766		4,906
Net loss				(2,892,230)	(2,892,230)
Balance 12/31/09	11,383,121	\$ 113,830	\$ 3,573,507	\$ (6,029,368)	\$ (2,342,030)
Shares issued in 2010 under PPM, \$.50	354,550	3,546	173,729		177,275
Shares issued to consultants for IR and consulting, \$.50	374,090	3,741	183,304		187,045
Value of equity instruments issued for consulting services			354,602		354,602
Vested stock options and warrants			11,382		11,382
Value of equity-linked financial instruments issued in connection with PPM in first quarter			(25,553)		(25,553)
Shares issued in May 2010 to consultant, \$.50	12,850	129	6,296		6,425
Shares issued in May 2010 to 2008 investors as a penalty for late registration, \$.50	710,248	7,102	348,022		355,124
Value of equity instruments issued with debt			119,474		119,474
Value of equity-linked financial instruments issued in connection with PPM in second quarter			(31,332)		(31,332)
Value of equity-linked financial instruments issued in connection with PPM in third quarter			(31,506)		(31,506)
Shares issued in September 2010 under PPM, \$.10	250,000	2,500	22,500		25,000
Shares issued to consultants in third quarter at \$.22 per share	488,860	4,889	102,660		107,549
Shares issued in November 2010 upon exercise of warrants at \$.135 per share	128,571	1,286	16,071		17,357
Shares issued in November 2010 to directors as compensation at \$.15 per share	300,000	3,000	42,000		45,000
Vested stock options in fourth quarter			161,107		161,107

Equity instruments issued to consultants in fourth quarter			26,234		26,234
Net loss				(1,352,709)	(1,352,709)
Balance 12/31/2010	14,002,290	$ 140,023	$ 5,052,497	$ (7,382,077)	$ (2,189,557)
Value of equity instruments issued with debt in first quarter			47,908		47,908
Shares issued at $.075 per share under PPM	5,333,334	53,334	346,666		400,000
Shares issued at $.085 per share under PPM	1,882,353	18,823	141,177		160,000
Shares issued at $.09 per share under PPM	200,000	2,000	16,000		18,000
Shares issued at $.10 per share under PPM	150,000	1,500	13,500		15,000
Vested stock options and warrants in first quarter			1,937,638		1,937,638
Equity instruments issued to consultants in first quarter			91,504		91,504
Stock issued upon conversion of debt in first quarter	416,010	4,160	15,840		20,000
Stock issued to pay interest on debt	158,036	1,580	20,920		22,500
Shares issued at $.07 per share under PPM	1,071,429	10,715	64,285		75,000
Stock issued upon conversion of debt and interest	941,034	9,410	22,590		32,000
Equity instruments issued to consultants			12,256		12,256
Equity instruments issued to consultants			147,116		147,116
Restricted stock issued to consultants	822,842	8,228	46,772		55,000
Shares issued at $.06 per share under PPM	3,500,000	35,000	175,000		210,000
Shares issued at $.20 per share under PPM	1,375,000	13,750	261,250		275,000
Shares issued upon exercise of stock options at $.01	100,000	1,000			1,000
Shares issued at $.35 per share IR compensation	575,000	5,750	195,500		201,250
Equity instruments upon conversion of Accounts Payable			20,000		20,000
Shares issued to private investor at $.15 per share	1,546,667	15,467	216,533		232,000
Net loss				(4,486,879)	(4,486,879)
Balance 12/31/2011	32,074,000	$ 320,740	$ 8,844,952	$ (11,868,956)	$ (2,703,264)
Shares issued to institutional investor upon conversion of Note Payable at $.1342 per share	59,613	596	7,404		8,000
Shares issued to institutional investor upon conversion of Note Payable at $.13 per share	107,692	1,077	12,923		14,000
Shares issued to institutional investor upon conversion of Note Payable at $.088 per share	170,455	1,705	13,295		15,000
Shares issued to institutional investor upon conversion of Note Payable at $.0446 per share	343,348	3,433	12,567		16,000
Shares issued to institutional investor upon conversion of Note Payable at $.0446 per share	269,058	2,690	9,310		12,000
Shares issued to institutional investor upon conversion of Note Payable at $.0446 per share	268,670	2,687	7,313		10,000
Shares issued to institutional investor upon conversion of Note Payable at $.0397 per share	428,212	4,282	4,218		8,500
Shares issued to a private investor at $.065 per share	9,230,770	92,308	507,692		600,000
Shares issued for consulting to the then interim CEO at $.065 per share	300,000	3,000	16,500		19,500
Vested stock options and warrants			830,372		830,372
Shares issued to an institutional investor upon conversion of Note Payable at $.0286 per share	349,650	3,497	6,503		10,000
Shares issued to a private investor per a convertible note default at $.15 per share	7,500,000	75,000	1,050,000		1,125,000
Shares issued to a private investor at $.15 per share	263,333	2,633	36,867		39,500
Shares issued upon exercise of options at $.01 per share	412,963	4,130			4,130
Stock issued upon conversion of debt at $.15 per share	3,292,557	32,926	460,958		493,884
Stock issued upon conversion of debt at $.065 per share	2,850,754	28,508	156,791		185,299
Shares issued to private investor upon conversion of Note Payable at $.18 per share	316,898	3,169	53,873		57,042
Shares issued to private investor upon conversion of Note Payable at $.052 per share	1,147,078	11,471	48,063		59,534
Shares issued to private investor upon conversion of Note Payable at $.10 per share	565,834	5,658	50,926		56,584
Shares issued to a private investor upon conversion of Note Payable at $.032 per share	1,572,327	15,723	34,277		50,000
Shares issued to an institutional investor upon conversion of Note Payable at $.031 per share	387,097	3,871	8,129		12,000
Stock issued upon conversion of debt at $.15 per share	397,267	3,973	55,617		59,590
Shares issued to a Director as compensation at $.09 per share	277,778	2,778	22,222		25,000
Shares issued under PPM at $.07 per share	9,870,666	98,707	592,239		690,946
Shares issued to institutional investor upon conversion of Note Payable at $.0353 per share	509,915	5,099	12,901		18,000
Shares issued to a private investor upon conversion of Note Payable at $.032 per share	283,718	2,837	6,185		9,022
Shares issued to an institutional investor upon conversion of Note Payable at $.0297 per share including $11,021 of interest.	740,741	7,407	25,614		33,021
Shares issued at $.15 per share as Investor Relations compensation	625,000	6,250	87,500		93,750
Shares issued as settlement to remove anti-dilution agreement at $.065 per share	26,500,000	265,000	1,457,500		1,722,500
Shares issued in settlement with former COO at $.15 per share less shares cancelled at $.09 per share	803,701	8,037	134,296		142,333
Equity value for options and warrants			150,189		150,189
Shares issued at $.07 per share as Investor Relations compensation	300,000	3,000	18,000		21,000
Shares issued at $.15 per share as conversion of debt	157,088	1,571	21,992		23,563
Shares issued to a private investor exercising options at $.01 per share	71,826	718			718
Shares issued to debtors as compensation at $.10 per share	1,563,031	15,630	140,613		156,243
Value of equity instruments issued with debt			33,469		33,469
Shares issued upon conversion of Note Payable at $.07 per share	236,092	2,361	14,165		16,526
Share true-up to certified shareholders list per the stock transfer agency	100	1			1
Net loss				(7,422,155)	(7,422,155)
Balance at 12/31/2012	104,247,228	$ 1,042,473	$ 14,945,435	$ (19,291,111)	$ (3,303,203)
Shares issued to debtors as compensation at $.15 per share	290,143	2,901	40,620		43,521

Shares issued under PPM to five investors at $.07 per share	7,142,857	71,429	428,571		500,000
Shares issued to an escrow account underlying a debt agreement (11)	1,000,000	10,000			10,000
Shares issued to debtors as compensation at $.15 per share	230,332	2,303	32,247		34,550
Shares issued to an institutional investor at $.07 per share	7,142,858	71,429	428,571		500,000
Value of shares per an agreement with a former officer (12)			40,480		40,480
Vesting expense			1,585,518		1,585,518
Shares issued to consultant as compensation at $.067 per share	250,000	2,500	14,250		16,750
Value of Equity instruments issued with debt			392,556		392,556
Shares issued to former consultant exercising options at $.01 per share	200,000	2,000	-		2,000
Shares issued to former CEO exercising options at $.01 per share.	333,330	3,333	-		3,333
Shares issued upon conversion of four notes payable at $.15 per share	1,041,622	10,416	145,827		156,243
Shares issued for interest to the four notes payable at $.15 per share	74,462	745	10,425		11,170
Shares issued for cashless exercise of warrants at $.12 per share	277,778	2,778			2,778
Shares issued for cashless exercise of warrants at $.16 per share	163,334	1,633			1,633
Shares issued for cashless exercise of warrants at $.15 per share	632,708	6,327			6,327
Shares issued for cashless exercise of warrants at $.20 per share	261,848	2,618			2,618
Shares issued to 24 warrant holders exercised at a reduced price for $.10 per share	10,444,898	104,449	940,041		1,044,490
Shares issued to 4 PPM investors converting notes at $.12 per share	2,637,534	26,375	290,129		316,504
Shares issued to 10 PPM investors converting notes at $.18 per share	5,405,431	54,054	966,146		1,020,200
Shares issued to consultant as compensation at $.38 per share	150,000	1,500	55,500		57,000
Shares issued for two note conversions at $.014 per share	71,066,331	710,663	284,265		994,928
Shares issued for warrant exercise at $.15 per share	1,071,429	10,715	150,000		160,715
Shares issued cashless exercise of warrants at $.075	4,527,947	45,280			45,280
Shares issued to an investor for a cashless exercise of warrants at $.17 per share	204,306	2,044			2,044
Shares issued to one investor for cashless warrant exercise at $.075 per share	231,023	2,310			2,310
Shares issued to former Board Directors as compensation at $.325 per share	100,000	1,000	99,000		100,000
Reduced warrant exercise compensation expense			2,140,946		2,140,946
Options issued as part of employee bonus			147,500		147,500
Shares issued to one investor for cashless warrant exercised at $.12 per share	277,778	2,778			2,778
Shares issued for cashless warrant exercise at $.13 per share	234,844	2,348			2,348
Net loss				(7,251,965)	(7,251,965)
Balance at 9/30/13	219,640,021	$ 2,196,401	$ 23,138,027	$ (26,543,076)	$ (1,208,648)

(1) Founders shares, 1,000,000 pre-split
(2) 23,492 (40,000 pre-split) shares valued at $.0167 per share as compensation for loan guarantees by management
(3) Investment including 670 shares issued as a 10% finder's fee
(4) For payment of patent legal fees
(5) Compensation for loan guarantees by management
(6) For vendor contractual consideration
(7) Employment agreements
(8) Investment
(9) Conversion of convertible notes by management
(10) Investment, "October 2008 financing".
(11) The shares reduce by 1/3 yearly and are returned to the Company as the debt is paid.
(12) The Company purchased shares previously issued to a former officer equal to the cost of withholding taxes advanced by the Company. The value here represents the net pay from the transaction that was retained by the Company.

See Notes to Financial Statements

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

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	April 23, 2002 (Inception) To September 30, 2013
Cash flow from operating activities:			
Net loss	(7,251,965)	(5,704,855)	(26,543,076)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	156,409	768	167,053
Compensation Expense for stock options and warrants	3,791,802	663,770	7,289,474
Equity instruments issued for management and consulting	137,230	3,775,250	5,926,998
Stock-based registration payments	-	-	355,124
Capital contributions resulting from waivers of debt	-	-	476,398
Amortization of debt discount	413,695	45,187	756,497
(Gain) loss on valuation of equity-linked instruments	(153,960)	(78,275)	(782,030)
Changes in assets and liabilities:			
Accounts receivable	(43,480)	10,475	(83,191)
Inventories	44,142	(36,811)	(101,067)
Prepaid expense and other assets	(7,053)	7,141	(34,462)
Notes payable to shareholders		-	(14,957)
Accounts payable	3,012	387,294	1,721,851
Accrued expenses	(430,998)	149,347	1,286,691
Deferred Revenue	5,000	-	5,000
Net cash used in operating activities:	(3,336,166)	(780,709)	(9,573,697)
Cash flow from investing activities:			
Purchase of fixed assets	(49,791)	-	(62,049)
Purchase of intangibles	(52,074)	-	(194,569)
Net cash used in investing activities	(101,865)	-	(256,618)
Cash flow from financing activities:			
Proceeds from long-term and convertible debt	1,542,718	372,284	3,655,209
Repayment of convertible debt		(50,000)	(250,000)
Principal payments on long-term debt		-	(75,667)
Issuance of common stock	2,210,536	437,576	6,829,135
Net cash provided by financing activities	3,753,254	759,860	10,158,677
Net increase (decrease) in cash	315,223	(20,849)	328,362
Cash at beginning of period	13,139	122,985	-
Cash at end of period	328,362	102,136	328,362
Non cash transactions:			
Conversion of debt to accrued liabilities	415,775		515,775
Common Stock/Options issued for accrued liabilities	395,304	99,784	613,474
Conversion of accounts payable to convertible debt	-	-	546,600
Common stock issued to satisfy debt	2,318,568	807,800	3,538,935
Stock/warrant issued to satisfy accounts payable/liabilities	100,521	395,078	539,165

See Notes to Condensed Financial Statements

SKYLINE MEDICAL INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Amounts presented at and for the nine months ended September 30, 2013 and September 30, 2012 are unaudited)

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Continuance of Operations

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

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

Since inception to September 30, 2013, the Company has raised approximately $6,829,000 in equity and $3,655,000 in debt financing, including $2,211,000 in equity and $1,543,000 in convertible debt in 2013. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources".

Recent Accounting Developments

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

Valuation of Intangible Assets

We review identifiable intangible assets for impairment in accordance with ASC 350- *Intangibles – Goodwill and Other,* whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Our intangible assets are currently solely the costs of obtaining trademarks and patents. Events or changes in circumstances that indicate the carrying amount may not be recoverable include, but are not limited to, a significant change in the medical device marketplace and a significant adverse change in the business climate in which we operate. If such events or changes in circumstances are present, the undiscounted cash flows method is used to determine whether the intangible asset is impaired. Cash flows would include the estimated terminal value of the asset and exclude any interest charges. If the carrying value of the asset exceeds the undiscounted cash flows over the estimated remaining life of the asset, the asset is considered impaired, and the impairment is measured by reducing the carrying value of the asset to its fair value using the discounted cash flows method. The discount rate utilized is based on management's best estimate of the related risks and return at the time the impairment assessment is made.

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

Accounting Policies and Estimates

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

Presentation of Taxes Collected from Customers

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

Shipping and Handling

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

Advertising

Advertising costs are expensed as incurred. There were no advertising expenses in the three and nine months ended September 30, 2013 and September 30, 2012.

Research and Development

Research and development costs are charged to operations as incurred. Research and development expenses were $73,621 and $4,818 for the three months ended September 30, 2013 and September 30, 2012, and $207,162 in the nine months ended September 30, 2013 and $4,818 for the nine months ended September 30, 2012.

Revenue Recognition

The Company recognizes revenue in accordance with the SEC's Staff Accounting Bulletin Topic 13 Revenue Recognition and ASC 605-Revenue Recognition.

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

Receivables

Receivables are reported at the amount the Company expects to collect on balances outstanding. The Company provides for probable uncollectible amounts through charges to earnings and credits to the valuation based on management's assessment of the current status of individual accounts, changes to the valuation allowance have not been material to the financial statements.

Inventories

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

	September 30, 2013	December 31, 2012
Finished goods	$ 85,958	$ 91,008
Raw materials	15,109	39,543
Work-In-Process	0	14,658
Total	$ 101,067	$ 145,209

Property and Equipment

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

	Years
Computers and office equipment	3
Furniture and fixtures	5

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

Intangible Assets

Intangible assets consist of patent costs. These assets are not subject to amortization until the property patented is in production. The assets are reviewed for impairment annually, and impairment losses, if any, are charged to operations when identified. The Company wrote off the entire STREAMWAY I product patent of $140,588 in June 2013. The balance represented intellectual property in the form of patents for our STREAMWAY I product. The Company's new STREAMWAY II product has a new provisional patent. See "Patents and Intellectual Property".

Income Taxes

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

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

Tax years subsequent to 2009 remain open to examination by federal and state tax authorities.

Patents and Intellectual Property

On January 25, 2013, the Company filed a U.S. Provisional Patent Application, number 61756763. The provisional patent application is for a new model of the surgical fluid waste management system that has embodiments, based on our patent attorney's recommendations that are patentable over all prior art and will not infringe on any existing patents. This provisional patent adds features that are novel and non-obvious over all the Company's previously filed applications.

Subsequent Events

The former CEO and the Company had a dispute concerning stock options negated under the former CEO's settlement agreement. The Company and the former CEO have entered into an amended settlement agreement whereby he will retain the 333,330 shares of common stock already exercised and the right to exercise options with respect to an additional 325,187 shares of common stock (as adjusted for two past reverse stock splits) at $.01 per share. Additionally, the Company agreed to pay the former CEO $20,000 in cash in two installments. In exchange the former CEO agreed to relinquish warrants to purchase an aggregate 800,000 shares of common stock. The settlement agreement was signed in September 2013, and the final payment was remitted in October 2013.

The Company has evaluated all other subsequent events through the date of this filing. The Company does not believe there are any other subsequent events that required disclosure.

Interim Financial Statements

The Company has prepared the unaudited interim financial statements and related unaudited financial information in the footnotes in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial statements. These interim financial statements reflect all adjustments consisting of normal recurring accruals, which, in the opinion of management, are necessary to present fairly the Company's financial position, the results of its operations and its cash flows for the interim periods. These interim financial statements should be read in conjunction with the annual financial statements and the notes thereto contained in the Form 10-K filed with the SEC on March 22, 2013. The nature of the Company's business is such that the results of any interim period may not be indicative of the results to be expected for the entire year.

NOTE 2 – DEVELOPMENT STAGE OPERATIONS

The Company was formed April 23, 2002. Since inception to November 6, 2013, 221,068,939 shares of common stock 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 – STOCKHOLDERS' DEFICIT, STOCK OPTIONS AND WARRANTS

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

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

Accounting for share-based payment

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

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

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

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

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

Valuation and accounting for options and warrants

The Company determines the grant date fair value of options and warrants using a Black-Scholes option valuation model based upon assumptions regarding risk-free interest rate, expected dividend rate, volatility and estimated term. For grants issued during 2008, the Company used a 2.0 to 4.5% risk-free interest rate, 0% dividend rate, 53-66% volatility and estimated term of 2.5 to 7.5 years. Values computed using these assumptions ranged from $.102 per share to $.336 per share. Warrants or options awarded for services rendered are expensed over the period of service (normally the vesting period) as compensation expense for employees or an appropriate consulting expense category for awards to consultants and directors. Warrants granted in connection with a common equity financing are included in stockholders' equity, provided that there is no re-pricing provision that requires them to be treated as a liability (See Note 8) and warrants granted in connection with a debt financing are treated as a debt discount and amortized using the interest method as interest expense over the term of the debt.

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

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

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

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

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

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

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

In November 2012, the Company issued four convertible notes of $27,500, $27,500, $51,243 and $50,000, respectively. The note holders were issued shares of our common stock at $.10 per share value as bonus equity in consideration for the notes. Though short term the value of the notes were treated as a debt discount with an aggregate discount of $33,469 and amortized as additional interest expense over the six month term of the notes.

For grants of stock options and warrants in 2012 the Company used a 0.33% to 1.80% risk-free interest rate, 0% dividend rate, 54%, 59% or 66% volatility and estimated term of 3, 5 or 10 years. Value computed using these assumptions ranged from $0.0111 to $0.096 per share.

In January 2013, in connection with a private placement offering the Company issued 8% convertible one year promissory notes in an aggregate principal amount of $300,000 convertible into 2,500,000 shares of common stock assuming a conversion rate of $.12 per share and five year warrants to purchase up to an aggregate of 2,500,000 shares of the corporation's common stock at an exercise price of $.15 per share. The value of the notes are being treated as a debt discount with an aggregate discount of $77,644, and amortized as an additional interest expense over the twelve month term of the notes. In addition, we issued to the placement agent for these sales five year warrants to purchase an aggregate of 200,000 shares of common stock at an exercise price of $.12 per share.

In January and March 2013, in connection with a separate and new private placement offering we issued 7,142,857 shares of common stock at $.07 per share and warrants to purchase 7,142,857 shares of common stock at $.15 per share to 5 investors in return for their $500,000 investment in the Company.

On March 15, 2013 the Company completed the private sale of 7,142,858 shares of the Company's common stock, par value $.01 per share, at $.07 per share for an aggregate purchase price of $500,000, warrants to purchase 7,142,858 shares of common stock at an exercise price of $.08 per share, and warrants to purchase 3,571,429 shares of common stock at an exercise price of $.15 per share.

In April 2013, the Company issued 200,000 shares of common stock, par value $.01 per share, at $.01 per share to a former consultant exercising options; the Company issued 333,330 shares of common stock, par value $.01 per share, at $.01 per share to the former CEO exercising options.

In May 2013, the Company converted four (4) notes totaling $156,243, plus $11,169 in interest; issued in November 2012, the noteholders received 1,116,084 shares of common stock, par value $.01, at $.10 per share. One of the noteholders was Dr. Samuel Herschkowitz who received 357,163 shares.

In May and June 2013, in connection with a private placement offering we issued 8% convertible one year promissory notes in an aggregate principal amount of $1,000,000 convertible into 6,000,000 shares of common stock assuming a conversion rate of $.18 per share and five year warrants to purchase up to an aggregate of 4,611,111 shares of the corporation's common stock at an exercise price of $.198 per share. The value of the notes was net of discounts of $275,640 in 2013; due in May and June 2014. In addition, we issued to the placement agent for these sales five year warrants to purchase an aggregate of 444,444 shares of common stock at an exercise price of $.18 per share.

In August and September 2013 the Company entered into agreements with holders of certain of its outstanding warrants to purchase the Company's common stock to amend the exercise price of the warrants to $0.10 per share in connection with the agreement of each such holder to exercise the warrants in full. Prior to the amendments, the exercise prices of such warrants ranged from $0.15 to $0.46 per share. Twenty-four warrants were exercised with a reduced exercise price, and nineteen warrants were exercised pursuant to a net exercise provision. Together, such warrant exercises resulted in aggregate cash proceeds of $1,044,490 to the Company, and the issuance of an aggregate of 10,444,898 shares of Common Stock through the reduced warrant exercise and 6,533,788 shares which were issued pursuant to a net exercise provision.

For grants of stock options and warrants in 2013 the Company used a 0.33% to 1.80% risk-free interest rate, 0% dividend rate, 59% volatility and estimated term of 5 years. Value computed using these assumptions ranged from $0.014 to $0.037 per share.

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

	Stock Options (1)		Warrants (1)	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding at December 31, 2005	17,956	$ 1.67	20,950	$ 2.62
Issued	23,942	1.67	71,826	0.85
Outstanding at December 31, 2006	41,898	1.67	92,776	1.25
Issued	5,984	1.67	28,502	0.35
Outstanding at December 31, 2007	47,882	1.67	121,278	1.04
Issued	1,243,292	0.20	5,075,204	0.45
Expired			(11,971)	3.76
Outstanding at December 31, 2008	1,291,174	0.26	5,184,511	0.45
Issued	205,000	0.37	2,188,302	0.65
Outstanding at December 31, 2009	1,496,174	0.27	7,372,813	0.49
Issued	2,210,000	0.17	3,435,662	0.34
Expired	(207,956)	0.43	(8,979)	1.67
Exercised			(128,571)	0.46
Outstanding at December 31, 2010	3,498,218	0.19	10,670,925	0.44
Issued	2,483,334	0.01	18,222,243	0.14
Expired	(83,941)	0.73	(2,010,917)	0.48
Exercised	(100,000)	0.01		
Outstanding at December 31, 2011	5,797,611	0.11	26,882,251	0.23
Issued	9,514,286	0.08	11,688,166	0.15
Expired	(2,235,368)	0.11	(3,366,455)	0.50
Exercised	(412,963)	0.01	(71,826)	0.01
Outstanding at December 31, 2012	12,663,566	0.09	35,132,136	0.13
Issued	17,515,784	0.082	25,739,682	0.12
Expired	(1,059,995)	0.26	(6,811,207)	0.19
Exercised	(533,330)	0.01	(18,050,115)	0.10
Outstanding at September 30, 2013	28,586,025	$ 0.08	36,010,496	$ 0.14

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

At September 30, 2013, 27,554,925 stock options are fully vested and currently exercisable with a weighted average exercise price of $0.08 and a weighted average remaining term of 9.00 years. All warrants are fully vested and exercisable. Stock-based compensation recognized for the nine months ending September 2013 and September 2012 was $1,585,518 and $663,770, respectively. The Company has $146,538 of unrecognized compensation expense related to non-vested stock options that are expected to be recognized over a weighted average period of approximately 13 months.

The following summarizes the status of options and warrants outstanding at September 30, 2013:

	Range of Exercise Prices	Shares	Weighted Average Remaining Life
Options:			
$	0.01	650,000	6.57
$	0.017	325,187	4.68
$	0.065	20,000	9.45
$	0.07	214,286	8.94
$	0.075	14,400,000	9.46
$	0.079	1,740,508	9.47
$	0.08	9,300,000	8.88
$	0.088	400,000	8.32
$	0.1325	226,415	9.79
$	0.14	242,857	9.79
$	0.15	676,666	7.41
$	0.17	5,000	9.61
$	0.318	94,338	10.00
$	0.33	100,000	9.99
$	0.3415	20,000	10.00
$	0.35	75,000	0.62
$	0.585	95,768	0.70
Total		28,586,025	
Warrants:			
$	0.01	200,000	2.19
$	0.075	2,883,334	1.15
$	0.08	7,714,286	4.45
$	0.10	1,428,572	0.59
$	0.12	200,000	5.78
$	0.15	16,648,284	4.25
$	0.16	150,000	0.80
$	0.17	1,294,118	0.53
$	0.18	533,333	3.08
$	0.198	1,770,833	4.66
$	0.20	1,437,500	0.47
$	0.25	1,375,000	0.99
$	0.46	83,207	0.56
$	0.769	342,029	0.75
Total		36,010,496	

Stock options and warrants expire on various dates from January 2014 to September 2023.

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

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

On October 20, 2008, the Board of Directors (i) approved the second reverse stock split pursuant to which the authorized number of shares of common stock of 15,942,607 was proportionately divided by 1.33177 to arrive at 11,970,994 shares and (ii) approved a resolution to increase the number of authorized shares of the Company's common stock from 11,970,994 to 40,000,000, which was approved by the Company's shareholders holding a majority of the shares entitled to vote thereon at a special meeting of shareholders held on December 3, 2008.

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

The shareholders approved an increase in authorized shares to 300 million shares in a special shareholder meeting held on January 15, 2013.

The shareholders approved an amendment of the Company's 2012 Stock Incentive Plan to increase the reserve of shares authorized for issuance to 50 million shares and to increase the threshold of limitation on certain grants to 20 million shares on April 15, 2013.

An increase form 300 million to 800 million authorized shares, and an amendment of the Company's 2012 Stock Incentive Plan to increase the reserve of shares authorized for issuance to 100 million shares was approved at the September 10, 2013 annual meeting

Stock Options and Warrants Granted by the Company

The following table is the listing of stock options and warrants as of September 30, 2013 by year of grant:

Stock Options:			
Year	Shares		Price
2008	420,955	$	.017 -.58
2009	75,000		.35
2010	410,000		.15
2011	650,000		.01
2012	9,514,286		.07 - .08
2013	17,515,784		.065 - .3415
Total	28,586,025	$	.01 - .58

Warrants:			
Year	Shares		Price
2008	342,029	$	.769
2009	83,207		.46
2010	400,000		.01 - .20
2011	9,764,357		.075-.25
2012	5,352,451		.15 - .20
2013	20,068,452		.08 - .198
Total	36,010,496	$	.01-.769

NOTE 4 - LOSS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Period from April 23, 2002 (Inception) to September 30,
	2013	**2012**	**2013**	**2012**	**2013**
Numerator:					
Net loss available in basic and diluted calculation	$ (3,974,903)	$ (2,855,713)	$ (7,251,965)	$ (5,704,855)	$ (26,543,076)
Denominator:					
Weighted average common shares outstanding-basic	136,728,212	79,467,603	126,664,802	55,370,243	16,302,589
Effect of diluted stock options and warrants (1)					
Weighted average common shares outstanding-diluted	136,728,212	79,467,603	126,664,802	55,370,243	16,302,589
Loss per common share-basic and diluted	$ (0.03)	$ (0.04)	$ (0.06)	$ (0.10)	$ (1.63)

(1) The number of shares underlying options and warrants outstanding as of September 30, 2013 and September 30, 2012 are 64,596,521 and 45,250,929 respectively. The effect of the shares that would be issued upon exercise of such options and warrants has been excluded from the calculation of diluted loss per share because those shares are anti-dilutive.

NOTE 5 – INCOME TAXES

The provision for income taxes consists of an amount for taxes currently payable and a provision for tax consequences deferred to future periods. Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

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

Federal and state income tax return operating loss carryovers as of September 30, 2013, were approximately $11,723,000 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 September 30, 2013 and December 31, 2012 are as follows:

	September 30, 2013	December 31, 2012
Deferred Tax Asset:		
Net Operating Loss	$ 2,735,000	$ 2,209,000
Other	21,000	73,000
Total Deferred Tax Asset	2,756,000	2,282,000
Less Valuation Allowance	2,756,000	2,282,000
Net Deferred Income Taxes	$ —	$ —

NOTE 6 – LONG-TERM DEBT

Long-term debt is as follows:

	September 30, 2013	December 31, 2012
Note payable issued on October 26, 2009 with interest at 8% to March 31, 2012 and convertible into shares of common stock at $.35 per share. The note was renegotiated in February 2013.	-	100,000
Note payable issued on June 12, 2010 with interest at 12% to March 31, 2012, and convertible into common stock at $.18 per share. The note was renegotiated in February 2013.	-	200,000
Note payable issued on December 23, 2010 with interest at 12%, matures December 23, 2012 and is convertible into common stock at $.084 per share. The note was renegotiated in February 2013.	-	16,800
Note payable issued on September 21, 2010 with interest at 12%, matures December 23, 2012 and is convertible into common stock at $.18 per share. The note was renegotiated in February 2013.	-	32,000
Note payable issued January 1, 2011 to a law firm that accepted this note in full payment of their past due legal fees. The Note bears interest at 6%, matures December 31, 2014 and is convertible into common stock at $.15 per share. The note was renegotiated in March 2013.	-	89,300
On November 6, 2012 the Company issued four convertible notes at 20% interest, each, net of an aggregate discounts of $0 and $21,138; due on April 6, 2013. The four notes were converted into 1,041,622 shares at $.10 per share.	-	122,774
In January 2013, in connection with a private placement offering we issued convertible one year promissory notes that bear interest at 8%, in an aggregate principal amount of $300,000 convertible into 2,500,000 shares of common stock assuming a conversion rate of $.12 per share and five year warrants to purchase up to an aggregate of 2,500,000 shares of the corporation's common stock at an exercise price of $.15 per share. The value of the notes are net discounts of $45,517 in 2013; due in January 2014. In addition, we issued to the placement agent for these sales five year warrants to purchase an aggregate of 200,000 shares of common stock at an exercise price of $.15 per share. All of the notes were converted in September 2013 resulting in 2,637,534 shares of common stock issued at $.12 per share.	-	-
In May and June 2013, in connection with a private placement offering we issued convertible one year promissory notes that bear interest at 8%, in an aggregate principal amount of $1,000,000 convertible into 6,000,000 shares of common stock assuming a conversion rate of $.18 per share and five year warrants to purchase up to an aggregate of 4,611,111 shares of the corporation's common stock at an exercise price of $.198 per share. The value of the notes is net discounts of $275,640 in 2013; due in May and June 2014. In addition, we issued to the placement agent for these sales five year warrants to purchase an aggregate of 444,444 shares of common stock at an exercise price of $.18 per share. All of the notes were converted in September 2013 resulting in 5,683,210 shares of common stock issued at $.18 per share.	-	
Total	$ -	$ 560,874
Less amount due within one year	-	471,574
Long-Term Debt	$ -	$ 89,300

Cash payments for interest were $41,264 for the nine months ended September 30, 2013 and $0 for the nine months ended September 30, 2012.

NOTE 7 – RENT OBLIGATION

The Company leases its principal office under a lease that can be cancelled after three years with proper notice per the lease and an amortized schedule of adjustments that will be due to the landlord. The lease extends five years and expires January 2018. In addition to rent, the Company pays real estate taxes and repairs and maintenance on the leased property. Rent expense was $46,321 and $39,593 through the nine months ended September 30, 2013 and September 30, 2012, respectively.

The Company’s rent obligation for the next five years is as follows:

2014	$	36,000
2015	$	37,000
2016	$	38,000
2017	$	39,000
2018	$	3,600

NOTE 8 – LIABILITY FOR EQUITY-LINKED FINANCIAL INSTRUMENTS

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

The January 1, 2009 valuation was computed using the Black-Scholes valuation model based upon a 2.5-year expected term, an expected volatility of 63%, an exercise price of $.46 per share, a stock price of $.35, a zero dividend rate and a 1.37% risk free interest rate. Subsequent to January 1, 2009 these warrants were re-valued at the end of each quarter and a gain or loss was recorded based upon their increase or decrease in value during the quarter. Likewise, new warrants that were issued during 2009 and 2010 were valued, using the Black-Scholes valuation model on their date of grant and an entry was made to reduce paid-in capital and increase the liability for equity-linked financial instruments. These warrants were also re-valued at the end of each quarter based upon their expected life, the stock price, the exercise price, assumed dividend rate, expected volatility and risk free interest rate. A significant reduction in the liability was realized in 2010 primarily due to a reduction from $.50 to $.22 per share in the underlying stock price. The Company realized a slight increase in the liability for existing warrants during the first quarter of 2012, and a large decrease in the liability for existing warrants in the second quarter of 2012 as many of the existing warrants expired and the spread of the remaining warrants between exercise and market price was more consistent. In the first and second quarters of 2013 there was a decrease in the liability primarily due to current expirations and the amount of warrants reaching expiration in the near term. In the third quarter there was an additional decrease due to expirations and exercises. The remaining warrants are set to expire between October 2013 and June 2018.

The inputs to the Black-Scholes model during 2009, 2010, 2011, 2012 and 2013 were as follows:

Stock price	$ .35 to $.50
Exercise price	$ .13 to $.50
Expected life	.01 to 2.2 years
Expected volatility	54% to 66%
Assumed dividend rate	- %
Risk-free interest rate	.13% to 2.97%

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

	Value at 12/31/09	2010 Gain (Loss)	Value at 12/31/10	2011 Gain (Loss)	Value at 12/31/2011	2012 Gain (Loss)	Value at 12/31/2012	2013 Gain (Loss)	Value at 9/30/2013
January 1, 2009 adoption	$ 870,278	$ 868,772	$ 1,506	$ (88,290)	$ 89,796	$ (21,856)	$ 111,652	$ 96,433	$ 15,219
Warrants issued in quarter ended 6/30/2009	149,007	147,403	1,604	(4,689)	6,293	6,293	-	-	-
Warrants issued in quarter ended 9/30/2009	40,481	40,419	62	(1,562)	1,624	910	714	714	-
Warrants issued in quarter ended 12/31/2009	12,081	12,053	28	(724)	752	78	337	337	-
Warrants issued in quarter ended 3/31/2010		25,014	539	(5,571)	6,109	3,701	2,408	2,408	-
Warrants issued in quarter ended 6/30/2010		30,740	592	(6,122)	6,714	6,083	631	631	-
Warrants issued in quarter ended 9/30/2010		20,811	10,615	(44,160)	54,775	1,338	53,437	53,437	-
Total	$ 1,071,847	$ 1,145,212	$ 14,946	$ (151,118)	$ 166,063	$ (3,453)	$ 169,179	$ 153,960	$ 15,219

NOTE 9 – RELATED PARTY TRANSACTIONS

The Audit Committee has the responsibility to review and approve all transactions to which a related party and the Company may be a party prior to their implementation, to assess whether such transactions meet applicable legal requirements. Rick Koenigsberger, a director, is a holder of membership units of SOK Partners.

Agreements with Former Directors

The Company entered into agreements, in 2008, with our Chairman of the Board, Lawrence Gadbaw, and in 2009 with a board member, Peter Morawetz, to pay Mr. Gadbaw $25,000 and Mr. Morawetz $30,000 upon the Company raising $3 million in new equity. Mr. Gadbaw received 277,778 shares at $.09 per share in June 2012 as compensation in lieu of the $25,000 cash for raising $3 million in new equity. Mr. Gadbaw was paid the balance due under his separation agreement from 2008. This amount was $46,000 upon signing the agreement in 2008 payable at $2,000 per month; the payments to Mr. Gadbaw are complete. Mr. Gadbaw is due $10,000 in accounts payable as of December 31, 2012 pertaining to his monthly fee as Chairman of the Board of Directors. Mr. Gadbaw also received a warrant for 30,000 shares at $.15 per share in June 30, 2012 as compensation for service as Chairman. Mr. Gadbaw and Mr. Morawetz have both resigned from the Board in the third quarter of 2013. Both Mr. Gadbaw and Mr. Morawetz received 50,000 shares of common stock each at $.325 per share; 20,000 of these shares were for compensation from serving as Board members and the remaining 30,000 shares were issued to satisfy previous contractual agreements.

Convertible Note Issuances to Dr. Samuel Herschkowitz and SOK Partners, LLC

On September 11, 2013, both the Herschkowitz Note and the SOK Note (each as defined below in this Note 9) were converted in full by the holders thereof at $0.014 per share. The principal and interest balance of the Herschkowitz Note of $314,484 was converted into 22,463,172 shares of common stock. The principal and interest balance of the SOK Note of $680,444 was converted into 48,603,721 shares of common stock. The collateral that secured these notes was released back to the Company.

The remaining disclosure of this Note 9 provides historical information regarding the Herschkowitz Note, the SOK Note and certain other convertible note issuances.

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

On March 28, 2012, the Company received an advance of $84,657 under the SOK Note, including a cash advance of $60,000 net of a prepayment of interest on the first $300,000 in advances under the SOK Note. The holder of the SOK Note was entitled to convert such note into shares of common stock of the Company at an initial conversion price per share of $0.065 per share, subject to adjustment in the event of (1) certain issuances of common stock or convertible securities at a price lower than the conversion price of the SOK Note, and (2) recapitalizations, stock splits, reorganizations and similar events. In addition, the Company is required to issue two installments of an equity bonus to SOK Partners in the form of common stock valued at the rate of $0.065 per share. In March 2012, the Company issued the first equity bonus to SOK Partners, consisting of 4,615,385 shares of common stock, with a second installment due within five business days after SOK Partners has made aggregate advances under the note of at least $300,000. In May 2012, the Company issued the second installment consisting of 4,615,385 shares of common stock subsequent to SOK Partners surpassing the aggregate advances of $300,000. Until the maturity date of the SOK Note, if the Company obtained financing from any other source without the consent of SOK Partners, then the Company was required to issue additional bonus equity in an amount equal to $600,000 less the aggregate advances on the SOK Note made prior to the breach. The principal balance of the SOK Note was $357,282 as of December 31, 2012.

As long as any amount payable under the SOK Note remained outstanding, SOK Partners or its designee were entitled to appoint a new member to the Company’s Board of Directors, to be appointed upon request. As a result, Mr. Koenigsberger was appointed to the Board by SOK Partners on June 25, 2012.

On March 28, 2012, the Company signed an Amended and Restated Note Purchase Agreement, dated as of December 20, 2011, with Dr. Herschkowitz (as amended, the “Herschkowitz Purchase Agreement”). Pursuant to the Herschkowitz Purchase Agreement, the Company issued a 20.0% convertible note due June 20, 2012 in the principal amount of $240,000 for previous advances under the note (the “Herschkowitz Note”). The Company’s obligations under the Herschkowitz Note were secured by the grant of a security interest in substantially all tangible and intangible assets of the Company. The Company has previously issued to Dr. Herschkowitz an equity bonus consisting of 1,546,667 shares of common stock. An additional 7,500,000 shares were transferred to Dr. Herschkowitz effective in April 2012, upon the occurrence of an event of default on the Herschkowitz Note. On August 13, 2012, the Company entered into a settlement and forbearance agreement described below, relating to the defaults under the Herschkowitz Note and other matters.

As long as any amount payable under the Herschkowitz Note remained outstanding, Dr. Herschkowitz or his designee was entitled to appoint a special advisor to the Company’s Board of Directors, to be appointed as a member of the Board upon request. Pursuant to this authority, Josh Kornberg was appointed to the Board on March 9, 2012. In addition, pursuant to this authority, Ricardo Koenigsberger was appointed to the Board on June 25, 2012.

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

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

Effective August 15, 2012, the Company entered into a letter agreement with Dr. Herschkowitz, APA and SOK (the "Forbearance Agreement"). Under the Forbearance Agreement, among other things, (i) Dr. Herschkowitz agreed to forbear from asserting his rights as a secured creditor to substantially all of the Company's assets, resulting from the Company's defaults; (ii) the Company issued an aggregate 26.5 million shares of common stock to Dr. Herschkowitz and SOK and adjusted the conversion price of the Herschkowitz Note and the SOK Note, respectively, to $0.014 per share from $0.065 per share, to satisfy the Company's obligations to adjust for dilution under the March 14, 2012 letter agreement; (iii) Dr. Herschkowitz and SOK agreed to extend the maturity of the Herschkowitz Note and the SOK Note, respectively, to December 31, 2012; (iv) the Company agreed to pay certain compensation to Dr. Herschkowitz upon the achievement of financial milestones; and (v) Dr. Herschkowitz clarified and waived certain of his rights, including the right to interest at a penalty rate upon default.

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

Dr. Herschkowitz and the Company acknowledged that 7.5 million shares of the Company's common stock, constituting the "penalty shares" under the Herschkowitz Note Purchase Agreement, were delivered to Dr. Herschkowitz in April 2012 as provided in the Herschkowitz Note Purchase Agreement upon an event of default. Notwithstanding a provision that would have increased the rate of interest from 20% to 24% upon an event of default, Dr. Herschkowitz agreed that the Company would not pay the increased rate of interest but would accrue interest at 20% until a subsequent event of default.

Under the Forbearance Agreement, the Herschkowitz Note and the SOK Note were amended as follows: (i) the due dates of the notes were extended to December 31, 2012, from the previous due dates of June 20, 2012 and August 28, 2012, respectively; (ii) Dr. Herschkowitz will release his security agreement after payment of all currently outstanding promissory notes to parties other than SOK; and (iii) the Herschkowitz Note was amended to add certain events of default relating to judgments against the Company or other creditors taking action with respect to the collateral. In consideration of the extension additional milestone fees were revised as described below. Pursuant to a Forbearance and Settlement Agreement with these parties dated August 15, 2012, as subsequently amended, the due date of these notes were extended to August 31, 2013.

APA and its affiliates agreed to terminate the letter agreement regarding dilution dated March 14, 2012. In consideration of the various provisions of the letter agreement and in recognition of the understanding of the parties regarding dilution and the agreements of APA and its affiliates to forebear and to extend the due dates of the notes, the Company (i) issued 13,250,000 shares to Dr. Herschkowitz, (ii) issued 13,250,000 shares to SOK, and (iii) the conversion price of the Herschkowitz Note and the SOK Note, respectively was changed to $0.014 per share from $0.065 per share.

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

In connection with the extension of the due date for the Herschkowitz Note and the SOK Note on March 6, 2013, the milestone fees were revised. The following fees were payable to Dr. Herschkowitz in the event that the Company consummates the following series of transactions on or prior to December 31, 2013: (i) financing raising not less than $1 million, compensation of $75,000; (ii) a going private transaction, compensation of $200,000 and (iii) 3% of the gross proceeds of the NASDAQ underwriting, which payment shall under no circumstances be less than $200,000 or greater than $3,000,000. In May 2013 Dr. Herschkowitz received $75,000 after the Company surpassed raising $1 million.

As a result of the transactions under the Forbearance Agreement and other investments, Dr. Herschkowitz, SOK and their affiliates currently own shares of common stock and derivative securities representing beneficial ownership of more than 65% of the Company's outstanding common stock, giving such parties significant control over election of the Board of Directors and other matters.

On November 6, 2012, the Company issued and sold convertible promissory notes in the total principal amount of $156,243 to Dr. Herschkowitz and certain of his assignees. The Company issued to these parties an aggregate 1,562,430 shares of common stock in consideration of placement of the notes. These notes bear interest at a rate of 20% per annum and are secured by a security interest in the Company's accounts receivable, patents and certain patent rights and are convertible into common stock upon certain mergers or other fundamental transactions at a conversion price based on the trading price prior to the transaction. The proceeds from this transaction were used to pay off approximately $155,000 in principal amount of secured indebtedness. Such notes were converted in April 2013 into 1,041,622 shares of common stock at $.10 per share.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We were incorporated in Minnesota in April 2002. We are a development stage company manufacturing an environmentally conscientious system for the collection and disposal of infectious fluids that result from surgical procedures and post-operative care. Since our inception in 2002, we have invested significant resources into product development. We believe that our success depends upon converting the traditional process of collecting and disposing of infectious fluids from the operating rooms of medical facilities to our wall-mounted Fluid Management System ("FMS") and use of our proprietary cleaning fluid and filter kit.

We have two direct salespersons and an independent representative selling the STREAMWAY System, and expect to hire additional direct salespersons in 2013 as well as potentially reaching agreement with regional and/or national sales organizations. We have sold a number of systems and have recognized revenues from sales of our disposable procedure kits. We also have hundreds of trial procedures being performed on a monthly basis with institutions that have installed our Streamway System for a 30-60 day trial period. We have brought the manufacturing process in house and plan to supplement capacity through outside third party contract manufacturers.

Since inception, we have been unprofitable. We incurred net losses of approximately $7.3 million and $5.7 million for the nine months ended September 30, 2013 and 2012, respectively and net losses of approximately $4.0 million and $2.9 million in the three month periods ended September 30, 2013 and 2012, respectively. As of September 30, 2013, we had an accumulated deficit of approximately $26.5 million. We received approval from the FDA in April 2009 to commence sales and marketing activities of the STREAMWAY FMS and shipped the first system in 2009. However, there was no significant revenue prior to 2011, primarily due to lack of funds to build and ship the product. We sold five STREAMWAY units in 2011, and another 25 to date.

The Company has completed the design of a STREAMWAY II version of the STREAMWAY system which will provide a number of enhancements to the existing product line including a more intuitive and easier to navigate control screen, data storage capabilities, and additional inlet ports on the filters, among other improvements. The Company has purchase orders for pending sales of 51 STREAMWAY II units that we anticipate producing in the fourth quarter of 2013. The Company has installed first generation STREAMWAY units in hospitals for evaluation purposes, and all of those units installed for trial during 2013 have been purchased by the hospital. If purchased, at that time, the Company recognizes revenue for trial base units if the customer signs a binding contract for the purchase of the trial unit. The Company invoices the customer based upon a contracted price negotiated prior to the trial.

We have never generated sufficient revenues to fund our capital requirements. We have funded our operations through a variety of debt and equity instruments. See “Liquidity and Capital Resources - Historical Financing” below. Our capital needs for the next 6 months are expected to be approximately $1 million because of our cash flow deficit. We will attempt to raise these funds through equity or debt financing, alternative offerings or other means. Our future cash requirements and the adequacy of available funds depend on our ability to sell our products. See “Liquidity and Capital Resources - Plan of Financing; Going Concern Qualification” below.

As a company still in 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.

Results of Operations

Revenue. The Company recognized $386,418 of revenue in the nine months ended September 30, 2013 and $99,210 in revenue in the nine months ended September 30, 2012. The Company recognized $107,835 of revenue in the three months ended September 30, 2013 and $51,615 in revenue in the three months ended September 30, 2012.The revenue in the third quarter of 2013 included the sale of eight STREAMWAY FMS systems plus disposables. The Company is no longer installing first generation STREAMWAY FMS units in hospitals for evaluation purposes, but has four units in trials with purchase orders for 51 STREAMWAY II units that we anticipate producing in the quarter. The Company’s decision to cease production of the STREAMWAY first generation sacrificing, in order to concentrate efforts toward putting the STREAMWAY II into full production, delayed some sales that would have resulted in higher third quarter revenues.

Cost of sales. Cost of sales in the nine months ended September 30, 2013 was $135,120 and $85,478 in the nine months ended September 30, 2012. Cost of sales in the three months ended September 30, 2013 was $26,181 and $69,962 in the three months ended September 30, 2012. The gross profit margin was approximately 65% for both the hardware and the cleaning solution kits in the nine months ended September 30, 2013, and 14% in the nine months ended June 30, 2012. As revenues increase, gross margins will depend on various factors, including manufacturing costs and volume purchasing discounts on both the equipment and the cleaning solution. Over the next several quarters, we expect the relationship of costs to revenues generally to improve from period to period.

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

General and administrative (G&A) expense increased by $872,000 from the nine months ended September 30, 2013 compared to September 30, 2012. G&A expense increased by $677,000 from the three months ended September 30, 2013 compared to September 30, 2012. The increase in the nine month period was primarily due to a $245,000 increase in salaries due to the full time employment of a CEO and CFO for the full nine month period in 2013; a $294,000 increase in investor relations costs; a $308,000 increase in legal fees as a result of additional SEC filings and private offerings; a $140,588 in amortization expense relating to the write-off of our intangible assets related to STREAMWAY I patents; and a $443,000 increase in stock based compensation, mostly as a result of equity awards to officers and employees. The offset to the increases is a decrease of 684,000 in investor’s stock compensation. The increase for the three month period ended September 30, 2013 as compared to September 30, 2012 was primarily due to investor relation fees, $62,000, legal fees, $176,000 salaries $56,000 and investors stock compensation $495,000. The predominant offset is a $197,000 decrease to stock based compensation.

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

Operations expense increased by $244,000 in the nine months ended September 30, 2013. Operations expenses increased by $53,000 in the three months ended September 30, 2013. Salaries increased $201,000 for the nine month period and $49,000 in the three month period, predominantly because the Company had a full time COO, but this was partially offset by reduced consulting fees of $110,000 for the nine month period and a reduction of $9,900 in the three month period, because the COO was previously a consultant for the Company. Research and development costs also increased by $203,000 and $69,000, for the nine month and three month periods, respectively. The increases were offset by stock based compensation of $117,000 for the nine month period and $10,000 for the three month period. Additionally there was a $33,000 increase in manufacturing expenses over the three month period.

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

Sales and marketing expense increased by $282,702 in the nine months ended September 30, 2013. Sales and marketing expense increased by $151,204 in the three months ended September 30, 2013 compared to the three months ended September 30, 2012. Public relations costs increased by $100,000 for the nine month period and $37,000 for the three month period because of a newly hired public relations firm in 2013. Salaries also increased by $59,000 and $24,000 in the nine and three month periods, respectively, as an additional sales person was hired in April 2013. Commission expense has grown commensurate with sales, increasing by $63,000 and $49,000 in the nine and three month periods, respectively.

Interest expense. Interest expense increased by $461,000 in the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012, as a direct result of converting all of the remaining notes payable to equity and the amortization of the debt discount. There was an increase of $384,000 in interest expense in the three-month period based upon the aforementioned transactions.

Gain/loss on revaluation of equity-linked financial instruments reflected a gain of $154,000 in the nine months ended September 30, 2013 compared to a gain of $78,300 in the 2012 period. Gain/loss on revaluation of equity-linked financial instruments reflected a gain of $65,300 in the three months ended September 30, 2013 compared to a $18,700 gain in the 2012 period. The increased gain in the current periods resulted from warrants moving closer to expiration.

Liquidity and Capital Resources

Cash Flows

Net cash used in operating activities was $3,336,000 for the nine months ended September 30, 2013 compared with net cash used of $781,000 for the September 30, 2012 period. The increase in cash used in operating activities was most affected by accrued expenses, $384,000, with an emphasis on reduced payroll liabilities, and $750,000 in accounts payable.

Cash flows used in investing activities was $101,865 for 2013 and zero in 2012. Investments consisted of software for a companywide implementation and legal bills directly incurred for new patent protection.

Net cash provided by financing activities was $3,753,000 for the nine months ended September 30, 2013 compared to net cash provided of $760,000 for the nine months ended September 30, 2012. The increase in 2013 was primarily the result of issuing $2,211,000 in common stock in 2013 compared to $438,000 in 2012, and obtaining an additional $1,543,000 in convertible debt funding. We expect to show additional cash provided by financing activities in the next few quarters provided we are successful in raising capital. See "Plan of Financing; Going Concern Qualification" below.

Capital Resources

We had a cash balance of $328,362 as of September 30, 2013. Since our inception, we have incurred significant losses. As of September 30, 2013, we had an accumulated deficit of approximately $26,543,000. From inception to September 30, 2013, our operations have been funded through a bank loan and private convertible debt of approximately $3,655,000 and equity investments that totaled approximately $6,829,000. See “Historical Financing” below. During the third quarter of 2013, the holders of convertible notes converted $2,140,000 of outstanding debt into equity. As a result, we had no note payable indebtedness on our balance sheet as of September 30, 2013, compared to total note payable indebtedness of $1,170,000 as of December 31, 2012. Further, our current liabilities were $1,385,174 as of September 30, 2013, compared to current liabilities of $3,414,301 at December 31, 2012. Also during the third quarter of 2013, we raised approximately $1,044,000 through the cash exercise of warrants by investors who were offered a reduction in the exercise price in connection with the exercise. See Note 3 to the Financial Statements. Our cash balance increased to $328,362 as of September 30, 2013, compared to $13,139 as of December 31, 2012.

We are currently incurring operating expenses of approximately $185,000 per month. Although we are attempting to curtail our expenses, there is no guarantee that we will be able to reduce these expenses significantly, and expenses for some periods may be higher as we prepare our product for broader sales, increase our sales efforts and maintain adequate inventories. Further, we have approximately $1,385,000 in liabilities and cash obligations that become due over the next 12 months. We believe that we will need to raise at least an aggregate of $1 million from future financing in order to have sufficient financial resources to fund our operations for the next 6 months because of our cash flow deficit. We may also seek to induce the cash exercise of additional existing warrants as well by offering a reduced exercise price. If successful we are planning significant capital investments, and we will have human resource additions over the next 6 months.

Based on our current operating plan, we believe that we have sufficient cash, cash equivalents and short-term investment balances to last approximately through April 30, 2014, after which additional financing will be needed to continue to satisfy our obligations. Our STREAMWAY System Two will be in production during the fourth quarter and, sales of this product are expected to provide additional operating revenues and cash balances that could reduce the need for additional fundraising.

Historical Financing

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

The funds from our October 2008 offering allowed us to complete the testing and certification of our FMS unit and to receive, on April 1, 2009, final FDA clearance. Management hired an investment banker in 2010 to raise an additional $3 to $5 million in new equity. The banker was unable to raise the expected $500,000 by September 30, 2010 and the balance within three months, but we raised approximately $229,000 in equity and $605,000 in convertible debt in 2010, and $1,386,000 in equity and $525,000 in convertible debt in 2011 through alternative means. In 2012, the Company converted $818,000 of debt into equity, raised $3,764,000 in equity and $1,053,000 in convertible debt. In the first three quarters of 2013 the company raised $1,471,000 in debt financing, and $4,417,000 in equity. In 2011, we raised $1,386,000 in equity and $525,000 in convertible debt, including the convertible debt investment by Dr. Sam Herschkowitz described under Item 13, “Certain Relationships and Related Party Transactions, and Director Independence.”

In 2012, the Company raised $696,000 in equity and $529,000 in convertible debt, and $818,000 of debt was converted into equity. This convertible debt included advances on a convertible promissory note from SOK Partners, LLC, and an investment fund affiliated with one of our directors, for approximately $357,000. See Item 13, "Certain Relationships and Related Party Transactions, and Director Independence." On November 6, 2012, we entered into additional note purchase agreements with Dr. Samuel Herschkowitz, pursuant to which on the same date, we issued and sold convertible promissory notes in the total principal amount of $156,243 to Dr. Herschkowitz and certain of his assignees. Pursuant to the note purchase agreements, we issued to these parties an aggregate 1,562,430 shares of common stock in consideration of placement of the notes. The convertible notes bear interest at a rate of 20% per annum and are secured by a security interest in the Company's accounts receivable, patents and certain patent rights and are convertible into common stock upon certain mergers or other fundamental transactions at a conversion price based on the trading price prior to the transaction. The proceeds from this financing were used to pay off approximately $155,000 in principal amount of secured indebtedness.

The Company also raised an additional $300,000 from the sale of convertible notes in January 2013. Also, in January and March 2013, the Company raised an additional $500,000 from a second private sale of equity securities. In addition, in March 2013, the Company completed a further private sale of common stock for an aggregate purchase price of $500,000. In June 2013, the Company raised an additional $1,000,000 from the sale of convertible notes. See Note 3 to the Financial Statements. In the third quarter we also borrowed the remaining $243,000 principal amount of our convertible note payable to SOK Partners, LLC. During the third quarter of 2013, the holders of convertible notes, including Dr. Samuel Herschkowitz and SOK Partners, LLC, converted $1,506,000 of outstanding debt, including principal and interest, into equity. The Company converted the promissory notes totaling $314,484 and $680,444, respectively, including principal and interest, on September 11, 2013 for 22,463,172 and 48,603,159 shares, respectively, at $.014 per share. Also during the third quarter of 2013, we raised approximately $1,044,000 through the cash exercise of warrants by investors who were offered a reduction in the exercise price in connection with the exercise.

Plan of Financing; Going Concern Qualification

We have not achieved profitability and anticipate that we will continue to incur net losses for the foreseeable future. We expect that our operations, sales and marketing, and general and administrative expenses will increase, and as a result we will need to generate significant revenue to achieve profitability.

We are currently incurring operating expenses of approximately $185,000 per month. Although we are attempting to curtail our expenses, there is no guarantee that we will be able to reduce these expenses significantly, and expenses for some periods may be higher as we prepare our product for broader sales, increase our sales efforts and maintain adequate inventories. Further, we have approximately $1,385,000 in debts, liabilities and cash obligations that become due over the next 12 months.

We believe that we will need to raise at least an aggregate of $1 million from future financing in order to have sufficient financial resources to fund our operations for the next 6 months because of our cash flow deficit. We have already successfully raised approximately $1,044,000 through the cash exercise of warrants by investors who were offered a reduction in the exercise price in connection with the exercise in August and September 2013, and we may seek to make a similar offer to holders of additional existing warrants as well. If successful we are planning significant capital investments, and we will have human resource additions over the next 6 months. If we are unable to attend additional funds at reasonable rates or at all we will be required to substantially curtail our operations and could cease to operate in our current form.

The Company has suffered recurring losses from operations and has a stockholders' deficit. Although we have been able to fund our current working capital requirements, principally through debt and equity financing, there is no assurance that we will be able to do so in the future. If financing is available, it may be highly dilutive to our existing shareholders and may otherwise include burdensome or onerous terms. Our inability to raise additional working capital at all or to raise it in a timely manner would negatively impact our ability to fund our operations, to generate revenues, and to otherwise execute our business plan, leading to the reduction or suspension of our operations and ultimately forcing us to declare bankruptcy, reorganize or to go out of business. Should this occur, the value of any investment in our securities could be adversely affected, and an investor would likely lose all or a significant portion of their investment. These factors raise substantial doubt about our ability to continue as a going concern.

As a result of the above factors, our independent registered public accountant firm has indicated in their audit opinion, contained in our financial statements included our annual report on Form 10-K for the year ended December 31, 2012, that they have serious doubts about our ability to continue as a going concern. The financial statements in the Form 10-K and in this Form 10-Q report have been prepared assuming the Company will continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Inflation

We do not believe that inflation has had a material impact on our business and operating results during the periods presented.

Off-Balance Sheet Arrangements

We have not engaged in any off-balance sheet activities as defined in Item 303(a)(4) of Regulation S-K.

Critical Accounting Policies and Estimates and Recent Accounting Developments

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

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

Our significant accounting policies are described in "Note 1 – Summary of Significant Accounting Policies," in Notes to Financial Statements of this Quarterly Report on Form 10-Q. We believe that the following discussion addresses our critical accounting policies and reflects those areas that require more significant judgments, and use of estimates and assumptions in the preparation of our Financial Statements.

Revenue Recognition. We recognize revenue in accordance with the SEC's Staff Accounting Bulletin Topic 13 Revenue Recognition and ASC 605 – Revenue Recognition.

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

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

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

Because we do not have significant historical trading data on our common stock we relied upon trading data from a composite of 10 medical companies traded on major exchanges and 15 medical companies quoted by the OTC Bulletin Board to help us arrive at expectations as to volatility of our own stock when broader public trading commences. In the case of options and warrants issued to consultants and investors we used the legal term of the option/warrant as the estimated term unless there was a compelling reason to use a shorter term. The measurement date for employee and non-employee options and warrants is the grant date of the option or warrant. The vesting period for options that contain service conditions is based upon management's best estimate as to when the applicable service condition will be achieved. Changes in the assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related expense recognized. The assumptions we use in calculating the fair value of stock-based payment awards represent our best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and we use different assumptions, our equity-based compensation expense could be materially different in the future. See "Note 3 – Stockholders' Deficit, Stock Options and Warrants" in Notes to Financial Statements of this Quarterly Report on Form 10-Q for additional information.

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

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

Valuation of Intangible Assets. We review identifiable intangible assets for impairment in accordance with ASC 350 – Intangibles – Goodwill and Other, whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Our intangible assets are currently solely the costs of obtaining trademarks and patents. Events or changes in circumstances that indicate the carrying amount may not be recoverable include, but are not limited to, a significant change in the medical device marketplace and a significant adverse change in the business climate in which we operate. If such events or changes in circumstances are present, the undiscounted cash flows method is used to determine whether the intangible asset is impaired. Cash flows would include the estimated terminal value of the asset and exclude any interest charges. If the carrying value of the asset exceeds the undiscounted cash flows over the estimated remaining life of the asset, the asset is considered impaired, and the impairment is measured by reducing the carrying value of the asset to its fair value using the discounted cash flows method. The discount rate utilized is based on management's best estimate of the related risks and return at the time the impairment assessment is made. The Company wrote off the entire STREAMWAY I product patent of $140,588 in June 2013. The balance represented intellectual property in the form of patents for our STREAMWAY I product. The Company's new STREAMWAY II product has a new provisional patent, see "Patents and Intellectual Property".

Recent Accounting Developments

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

Information Regarding Forward-Looking Statements

This Form 10-Q contains "forward-looking statements" that indicate certain risks and uncertainties related to the Company, many of which are beyond the Company's control. The Company's actual results could differ materially and adversely from those anticipated in such forward-looking statements as a result of certain factors, including those set forth below and elsewhere in this report. Important factors that may cause actual results to differ from projections include:

- Possible inability to raise sufficient additional capital to operate our business, causing our independent registered public accountant firm to indicate in their audit opinion, contained in our financial statements included our annual report on Form 10-K for the year ended December 31, 2012, that they have serious doubts about our ability to continue as a going concern;
- We have approximately $1.4 million in debts, liabilities and cash obligations that become due over the next twelve months;
- Unexpected costs and operating deficits, and lower than expected sales and revenues, if any;
- Adverse economic conditions;
- Adverse results of any legal proceedings;
- The volatility of our operating results and financial condition;
- Inability to attract or retain qualified senior management personnel, including sales and marketing personnel; and
- Other specific risks that may be alluded to in this report.

All statements, other than statements of historical facts, included in this report regarding the Company's growth strategy, future operations, financial position, estimated revenue or losses, projected costs, prospects and plans and objectives of management are forward-looking statements. When used in this report, the words "will," "may," "believe," "anticipate," "intend," "estimate," "expect," "project," "plan" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. All forward-looking statements speak only as of the date of this report. The Company does not undertake any obligation to update any forward-looking statements or other information contained herein. Potential investors should not place undue reliance on these forward-looking statements. Although the Company believes that its plans, intentions and expectations reflected in or suggested by the forward-looking statements in this report are reasonable, the Company cannot assure potential investors that these plans, intentions or expectations will be achieved. The Company discloses important factors that could cause the Company's actual results to differ materially from its expectations in the "Risk Factors" section of the Form 10-K and Form 10-K/A filed with the Securities and Exchange Commission on March 22, 2013, and April 8, 2013, respectively. These cautionary statements qualify all forward-looking statements attributable to the Company or persons acting on its behalf.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not required.

ITEM 4. Control and Procedures

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the rules promulgated under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission.

With the participation of the Chief Executive Officer and the Chief Financial Officer, management has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2013.

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the three months ended September 30, 2013 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

The former CEO and the Company had a dispute concerning stock options negated under the former CEO’s settlement agreement. The Company and the former CEO have entered into an amended settlement agreement whereby he will retain the 333,330 shares of common stock already exercised and the right to exercise options with respect to an additional 325,187 shares of common stock at $.01 per share. Additionally, the Company agreed to pay the former CEO $20,000 in cash in two installments. In exchange the former CEO agreed to relinquish warrants to purchase an aggregate 800,000 shares of common stock.

ITEM 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, the reader should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012. There have been no material changes in the Company’s risk factors from those disclosed in Part I, Item 1A, of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2012 with the exception of the amendment and replacement of the first risk factor below, and the addition of the second risk factor below.

We will require additional financing to sustain our operations, and if adequate financing is not available, we may be forced to go out of business. Such financing will be dilutive and feature restricted terms. Our independent public accounting firm has indicated in their audit opinion, contained in our financial statements, that they have serious doubts about our ability to remain a going concern.

We have not achieved profitability and anticipate that we will continue to incur net losses for the foreseeable future. We expect that our operations, sales and marketing, and general and administrative expenses will increase, and as a result we will need to generate significant revenue to achieve profitability.

We are currently incurring operating expenses of approximately $185,000 per month. Although we are attempting to curtail our expenses, there is no guarantee that we will be able to reduce these expenses significantly, and expenses for some periods may be higher as we prepare our product for broader sales, increase our sales efforts and maintain adequate inventories. Further, we have approximately $1,385,000 in debts, liabilities and cash obligations that become due over the next 12 months. The Company also has other significant indebtedness. If the Company defaults on its debt, it may be forced to seek bankruptcy protection and may be unable to continue in business.

We believe that we will need to raise at least an aggregate of $1 million from future financing in order to have sufficient financial resources to fund our operations for the next 6 months because of our cash flow deficit. We have already successfully raised approximately $1,044,000 through the cash exercise of warrants by investors who were offered a reduction in the exercise price in connection with the exercise in August and September 2013, and we may seek to make a similar offer to holders of additional existing warrants as well. If successful we are planning significant capital investments, and we will have human resource additions over the next 6 months. If we are unable to attend additional funds at reasonable rates or at all we will be required to substantially curtail our operations and could cease to operate in our current form.

The Company has suffered recurring losses from operations and has a stockholders' deficit. Although we have been able to fund our current working capital requirements, principally through debt and equity financing, there is no assurance that we will be able to do so in the future. If financing is available, it may be highly dilutive to our existing shareholders and may otherwise include burdensome or onerous terms. Our inability to raise additional working capital at all or to raise it in a timely manner would negatively impact our ability to fund our operations, to generate revenues, and to otherwise execute our business plan, leading to the reduction or suspension of our operations and ultimately forcing us to declare bankruptcy, reorganize or to go out of business. Should this occur, the value of any investment in our securities could be adversely affected, and an investor would likely lose all or a significant portion of their investment. These factors raise substantial doubt about our ability to continue as a going concern.

As a result of the above factors, our independent registered public accounting firm has indicated in their audit opinion, contained in our financial statements included in our Annual Report on Form 10-K that they have serious doubts about our ability to continue as a going concern. The financial statements have been prepared assuming the Company will continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Since our inception, a majority of our shares and other securities have been issued in violation of the preemptive rights of existing shareholders, which could result in claims against us.

It was recently brought to the attention of our management and board of directors that our company is subject to preemptive rights. The Minnesota Business Corporation Act (the "Act") provides such rights to shareholders of a corporation, unless the corporation's articles of incorporation "opt out" and deny them. Our company's articles of incorporation have never denied preemptive rights or mentioned them in any way. Since our inception in 2002, our company has issued shares of common stock and other equity securities on numerous occasions to raise capital and for other purposes and, to our knowledge; we have never complied with the Minnesota preemptive rights statute in connection with such issuances. At our annual meeting in September 2013, the shareholders approved a merger to reincorporate our company in Delaware. Upon the completion of that merger, shareholders will no longer have preemptive rights relating to any future issuances of securities.

In connection with previous issuances of securities, we may be subject to the claims of previous and current shareholders based on violations of their preemptive rights. With certain exceptions, each time our company has issued common stock, rights to purchase common stock or securities convertible into common stock, we were required to provide notice to existing shareholders of their preemptive rights and to afford them the opportunity to purchase their pro rata share of such securities before they were sold to other purchasers. The Act provides exemptions for specified types of issuances; however, management believes that such exemptions did not apply to most of the issuances of equity securities by our company. Therefore, we believe that since our inception, a majority of our shares and other equity securities have been issued in violation of the preemptive rights of then-existing shareholders. Management does not believe that it would be practicable to offer preemptive rights retroactively or to seek waivers of such rights, because we have been a publicly traded company since November 2009.

Shareholders who were denied preemptive rights in connection with the issuance of equity securities could seek various remedies, including the right to purchase securities on the same terms such securities were sold to other purchasers or monetary damages based on the loss of the opportunity to purchase such securities. Further, the shareholders whose preemptive rights were not honored or the holders of the securities issued in violation of the rights could claim that such securities are invalid. The risk and magnitude of these claims are uncertain, because there is little legal authority on the application of the Minnesota preemptive rights statute, especially for issuances of securities when a company's shares are publicly traded. We believe shareholders would have difficulty asserting claims relating to issuances more than six years ago, because a six year statute of limitations would generally apply under Minnesota law, subject to potential claims that the certain transactions were not subject to the statute of limitations or that the six year period started at a later time. We intend to vigorously defend any potential claims, based in part on the following facts and circumstances: (a) since November 2009, the ability of existing shareholders to purchase freely tradable shares on the public markets; (b) the prevailing market prices or value of our shares on the dates when the company has issued equity securities; (c) existing shareholders' knowledge of past issuances of securities, based on the public availability of our financial information since our first filing of a registration statement in November 2008 and our regular filing of periodic reports; (d) the purposes of preemptive rights, which are intended to protect the rights of shareholders in privately held corporations; and (e) the benefits that all shareholders have realized through the capital provided by the issuances of securities. However, if current or former shareholders bring claims against the company for violations of preemptive rights, there can be no assurance that our company will not be liable for damages, the amount of which cannot be predicted. Further, in connection with any such claims, a court may grant other remedies that will have a material adverse effect on our company's financial condition or results of operations, or that will result in dilution to some existing shareholders.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following is a summary of our transactions since January 1, 2013 involving sales of our securities that were not registered under the Securities Act:

In January 2013, in connection with a private placement offering we issued convertible one year promissory notes that bear interest at 8%, in an aggregate principal amount of $300,000 convertible into 2,500,000 shares of common stock assuming a conversion rate of $.12 per share and five year warrants to purchase up to an aggregate of 2,500,000 shares of the corporation's common stock at an exercise price of $.15 per share. The value of the notes are net discounts of $45,517 in 2013; due in January 2014. In addition, we issued to the placement agent for these sales five year warrants to purchase an aggregate of 200,000 shares of common stock at an exercise price of $.15 per share. All of the notes were converted in September 2013 resulting in 2,637,534 shares of common stock issued at $.12 per share.

In January and March, 2013, in connection with a separate and new private placement offering we issued 7,142,857 shares of common stock at $.07 per share and warrants to purchase 7,142,857 shares of common stock at $.15 per share to 5 investors in return for their $500,000 investment in the Company.

In January 2013, the Company issued 290,143 shares of common stock at $.15 per share in payment to a vendor for $43,521.39 including principal and interest.

In February 2013, the Company issued 1,000,000 shares of common stock to an escrow account to secure a settlement agreement with a former note holder. The escrow agent releases 1/3 of the stock back to the Company once per year until the settlement is paid in full. If the Company prepays the balance due then all the stock remaining in escrow is released back to the Company. If the Company defaults, and cannot cure the default within the contracted time period, then the stock is released to the note holder toward payment of the settlement.

In February 2013, the Company issued 250,000 shares of common stock in agreement with an investor relations firm canceling their services.

In March 2013, the Company issued 230,332 shares of common stock to a vendor as part of a cash/stock settlement of their long term note with the Company.

In March 2013, the Company issued 7,142,858 shares of common stock as an equity bonus. Includes a warrant to purchase 7,142,858 shares of common stock at $.08 per share. Includes a warrant to purchase 3,571,429 shares of common stock at $.15 per share. Includes a warrant to purchase 190,476 shares of common stock at $.08 per share. Includes a warrant to purchase 380,952 shares of common stock at $.08 per share.

On April 22, 2013, the Company issued 200,000 shares of common stock to a former consultant exercising stock options with an exercise price of $.01.

On April 25, 2013, the Company issued 333,330 shares of common stock to the former CEO exercising stock options with an exercise price of $.01.

On May 7, 2013 the Company converted the notes issuing 1,116,082 aggregate shares of common stock at $.15 per share to the note holders. One of the note holder's is Dr. Herschkowitz, a related party, who received 357,163 shares of common stock.

In May and June 2013, in connection with a private placement offering we issued convertible one year promissory notes that bear interest at 8%, in an aggregate principal amount of $1,000,000 convertible into 6,000,000 shares of common stock assuming a conversion rate of $.18 per share and five year warrants to purchase up to an aggregate of 4,611,111 shares of the corporation's common stock at an exercise price of $.198 per share. The value of the notes is net discounts of $275,640 in 2013; due in May and June 2014. In addition, we issued to the placement agent for these sales five year warrants to purchase an aggregate of 444,444 shares of common stock at an exercise price of $.18 per share. All of the notes were converted in September 2013 resulting in 5,683,210 shares of common stock issued at $.18 per share.

In August and September 2013 some warrant holders opted for a cashless warrant exercise resulting in issuing 6,533,788 shares of common stock pursuant to the warrant instruction for cashless exercise.

In September 2013 the Company offered a limited amount of large warrant holders to exercise at a reduced rate of $.10 per share. Twenty-four warrants were exercised for a total of 10,444,898 shares for $1,044,490.

In September 2013 the Company issued 150,000 shares of common stock at $0.38 per share for consulting to a public relation/investor relations company.

In September 2013 the Company issued 22,463,172 shares of common stock at $0.14 per share to a secured note holder converting the debt to equity. The security interest held by the noteholder has been returned to the Company. UCC forms were filed appropriately.

In September 2013 the Company issued 48,603,159 shares of common stock at $0.14 per share to a secured note holder converting the debt to equity. The security interest held by the noteholder has been returned to the Company. UCC forms were filed appropriately.

In September 2013, two Board Directors resigned from the Board. Both received 50,000 shares of common stock each at $.325 per share; 20,000 of these shares were for compensation from serving as Board members and the remaining 30,000 shares were issued to satisfy previous contractual agreements.

In October 2013, the Company issued to Wisconsin Rural Enterprise Fund, LLC ("WREF") 378,000 shares of the Company's common stock in full and final settlement of all of WREF's claims against the Company related to a certain Stock Purchase and Sale Agreement entered into by and between the Company and WREF on December 2, 2006.

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

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

Frequency of Advisory Vote. The Board of Directors has determined that the Company will hold a shareholder advisory vote on executive compensation (Say-on-Pay) on a triennial basis. This decision was based in part on the results of the shareholder advisory vote on the frequency of the Say-on-Pay vote at the annual meeting of the Company's shareholders held on September 10, 2013. In this frequency vote, a majority of shares were voted in favor of a triennial Say-on-Pay vote. Accordingly, the next Say-on-Pay vote is expected to be held at the annual meeting of the Company's shareholders in 2016.

Shareholder Approval of Reincorporation Merger. At the Company's annual meeting of shareholders held on Tuesday, September 10, 2013, the Company's shareholders approved the proposed reincorporation of the Company in the State of Delaware, including an increase in the authorized share capital of the Company from 300,000,000 shares of Common Stock to 800,000,000 shares of Common Stock (proportionately reduced in the event of a reverse stock split) and 10,000,000 shares of preferred stock (collectively, the "Reincorporation Merger"). The Company's Board of Directors has the discretion to consummate the Reincorporation Merger. The Reincorporation Merger is not yet effective, and will become effective only upon filing of a properly executed certificate of merger with the Secretary of State of Delaware and articles of merger with the Secretary of the State of Minnesota.

Item 6. Exhibits

See the attached exhibit index.

SIGNATURES:

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		SKYLINE MEDICAL INC.
Date: November 14, 2013	By:	/s/ Joshua Kornberg
		Joshua Kornberg
		President and Chief Executive Officer
Date: November 14, 2013	By:	/s/ Bob Myers
		Bob Myers
		Chief Financial Officer

EXHIBIT INDEX

SKYLINE MEDICAL INC.
Form 10-Q

The quarterly period ended September 30, 2013

Exhibit No.	Description
2.1	Form of Agreement and Plan of Merger for Reincorporation Merger (2)
3.1	Articles of Amendment to the Articles of Incorporation, effective as of August 6, 2013 (1)
4.1	Amended and Restated 2012 Stock Incentive Plan (2).
10.1*	Settlement Agreement and Mutual General Release dated September 18, 2013, entered into by and among Kevin Davidson, Skyline Medical, Inc., Atlantic Partners Alliance LLC, SOK Partners LLC, Joshua Kornberg and Dr. Samuel Herschkowitz.
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document**
101.SCH*	XBRL Extension Schema Document**
101.CAL*	XBRL Extension Calculation Linkbase Document**
101.DEF*	XBRL Extension Definition Linkbase Document**
101.LAB*	XBRL Extension Labels Linkbase Document**
101.PRE*	XBRL Extension Presentation Linkbase Document**

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* Filed herewith.

** In accordance with Rule 406T of Regulation S-T, this information is deemed not "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

(1) Filed on August 7, 2013 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
(2) Filed on August 27, 2013 as an exhibit to our Proxy Statement on Schedule 14A and incorporated herein by reference.

Exhibit 10.1

SETTLEMENT AGREEMENT AND MUTUAL GENERAL RELEASE

This Settlement Agreement and Release ("Agreement") is entered into by and between Skyline Medical Inc., a Minnesota Corporation (formerly known as BioDrain Medical, Inc., a Minnesota Corporation) ("BioDrain"), and all persons and entities claiming by or through BioDrain, on the one hand, and Kevin Davidson ("Davidson"), and all persons and entities claiming by or through Davidson, on the other hand. BioDrain and Davidson collectively are referred herein as "Settling Parties" or, singularly, as "Settling Party," as appropriate from the context.

Recitals

WHEREAS:

A. In or about April 2012, a dispute arose between the Settling Parties regarding what, if any, amount was owed by one Settling Party to the other arising from Davidson's employment with BioDrain;

B. As part of the dispute, Davidson alleged that he is entitled to reimbursement of back-wages and unused vacation time, and severance pay;

C. As part of the dispute, BioDrain alleged that it is entitled to reimbursement of over-payment of wages to Davidson and the return of BioDrain property;

D. Effective September 14, 2012, the Settling Parties signed a Settlement Agreement and Mutual General Release (the "Prior Agreement");

E. In or about June of 2013, a dispute arose between the Settling Parties regarding their respective rights and obligations under the Prior Agreement;

F. On or about July 1, 2013, BioDrain commenced an action against Davidson in Dakota County District Court, State of Minnesota, Court File No. 19HA-CV-13-2967, alleging *inter alia* that Davidson breached the Prior Agreement (the "Action");

G. On or about July 2, 2013, Davidson purported to rescind the Prior Agreement, which rescission was disputed by BioDrain;

H. The Settling Parties now wish to settle all outstanding issues between them in accordance with the terms and conditions of this Agreement, without any admission or acknowledgment of liability by any Settling Party.

NOW, THEREFORE, the Settling Parties hereby agree as follows:

Terms, Covenants and Releases

1. **Consideration.** In consideration for the releases and other consideration set forth in this Agreement, including without limitation Davidson's agreements in Section 8 hereof relating to confidentiality, noncompetition and nonsolicitation:

1.1. BioDrain hereby acknowledges that Davidson is the lawful owner of 50 shares reflected by stock certificate number 1608-9, received on about August 20, 2012 (the "Existing Shares.")

1.2. BioDrain hereby acknowledges that Davidson is the lawful owner of 333,330 shares reflected by stock certificate number 1853-1, received on about April 25, 2013 upon exercise of a stock option dated August 1, 2011 (the "2011 Option Shares.")

1.3. BioDrain hereby acknowledges that Mr. Davidson is entitled to exercise options under the Option Agreement dated as of June 5, 2008 attached hereto at Exhibit A (the "2008 Option Agreement"), pursuant to all terms and conditions stated therein, except as modified as follows (a) the 2008 Option Agreement shall be deemed to entitle Davidson to purchase 325,187 shares (the "2008 Option Shares") at an exercise price of $.0167 (after adjustment for stock splits that occurred in 2008 relating to BioDrain common stock), and subject to any further stock splits which might occur prior to exercise, and (b) Davidson may exercise the 2008 Option Agreement on or before December 31, 2013, after which date Davidson will have no further rights to exercise the 2008 Option.

1.4. Notwithstanding anything to the contrary in this Agreement, Mr. Davidson will not sell more than 50,000 shares of BioDrain stock (including without limitation the Existing Shares, the 2011 Option Shares and the 2008 Option Shares) during any calendar week (Monday through Sunday.)

1.5. Notwithstanding anything to the contrary in the Prior Agreement, BioDrain shall not be required to issue and deliver to Davidson the four (4) warrants for 800,000 shares (collectively, the "Warrants") described in Section 2.1 of the Prior Agreement, and Davidson hereby fully and permanently disclaims any right to such Warrants.

1.6. Notwithstanding anything to the contrary in the Prior Agreement, BioDrain shall not be required to issue and deliver to Davidson right, title and interest in and to the laptop computer described in Section 2.2 of the Prior Agreement, and Davidson hereby fully and permanently disclaims any right to such laptop computer.

1.7. Notwithstanding anything in the Prior Agreement to the contrary, Davidson acknowledges and agrees that he owns no other BioDrain shares and has no rights with respect to BioDrain shares, except as set forth in Sections 1.1, 1.2, and 1.3 above, and that he has no rights of any kind to any other BioDrain shares, vested or unvested, pursuant to the 2008 or 2011 option agreements, or any other option or warrant agreement, or any other source, except as expressly set forth in Sections 1.1, 1.2 and 1.3 above.

1.8. Simultaneously with the execution of this Agreement by BioDrain, the Parties will enter into a Consent Judgment and Stipulated Order of Dismissal in the form attached hereto as Exhibit B and file it with the Court. Thereafter, the Parties shall encourage the Court to approve and enter the Consent Judgment and Stipulated Order of Dismissal in the form attached hereto and reasonably cooperate with one another to effectuate the same.

1.9. Following entry of the Consent Judgment and Stipulated Order of Dismissal, BioDrain shall pay to Mr. Davidson the sum of twenty thousand dollars ($20,000.00). Payment shall be as follows: The payment will be by certified check made payable to "Kevin Davidson" delivered to the office of Mr. Davidson's legal counsel, Trepanier & MacGillis P.A., 8000 Flour Exchange Building, 310 Fourth Avenue South, Minneapolis, Minnesota 55415 (the "Settlement Payment") on the following schedule: 1) $10,000 within seven (7) calendar days following entry of the Consent Judgment and Stipulated Order of Dismissal, and 2) $10,000 within thirty (30) calendar days following the first payment.

1.10. This Agreement will not become effective unless and until: (a) all parties listed in the signature block below have signed this Agreement and (b) the Consent Judgment and Stipulated Order of Dismissal have been entered as provided in Section 1.8 above substantially in the form attached hereto as Exhibit B.

2. **Investment Representation.**

2.1. Davidson (i) understands that the 2008 and 2011 Options, and the shares of the Common Stock for which the Options were or are exercisable, are characterized as “restricted securities” under the federal securities laws since such securities are being acquired from BioDrain in a transaction not involving a public offering and that, under such laws and applicable regulations, such securities may be resold without registration under the Act only in certain limited circumstances and (ii) represents that he is familiar with Rule 144 promulgated under the Act, as presently in effect, and understands the resale limitations imposed thereby and by the Act; and

2.2. At no time was any oral representation made to Davidson relating to the Options, the Existing Shares, or the Shares which he obtained pursuant to the Options, nor was Davidson presented with or solicited by any leaflet, public or promotional material, newspaper or magazine article, radio or television advertisement or any other form of general advertisement relating to the Options, the Existing Shares, or Shares issued pursuant thereto.

3. **Limitations on Disposition.**

3.1. Transfers. Davidson agrees not to transfer the shares of Common Stock issued or issuable upon Davidson's exercise of the Options (the "Option Shares"), except in accordance with the express terms of this Section 3 and unless the proposed transferee (a) is not a direct or indirect competitor of BioDrain and (b) agrees with BioDrain in writing to be bound by the terms and conditions of Section 3 of this Agreement. Any attempted transfer in violation of this Section 3 shall be void and of no effect.

3.2. Compliance with Securities Law. Without in any way limiting the representations set forth above, Davidson further agrees not to make any disposition of all or any portion of the 2008 or 2011 Option Shares, except in compliance with applicable state securities laws and unless and until:

3.2.1. there is then in effect a registration statement under the Act covering such proposed disposition and such disposition is made in accordance with such registration statement;

3.2.2. such disposition is made in accordance with Rule 144 promulgated under the Act; or

3.2.3. Davidson shall have (i) notified BioDrain of the proposed disposition, (ii) furnished BioDrain with a statement of the circumstances surrounding the proposed disposition and (iii) if requested by BioDrain, Davidson shall have furnished BioDrain with an opinion of counsel, acceptable to BioDrain, to the effect that such disposition will not require registration under the Act and will be in compliance with applicable state securities laws.

3.3. Stock Certificate Legend. Davidson understands and acknowledges that each certificate evidencing the Option Shares (or evidencing any other securities issued with respect thereto pursuant to any stock split, stock dividend, merger or other form of reorganization or recapitalization) shall bear, in addition to any other legends which may be required by applicable state securities law, the following legend:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED ("ACT"), NOR HAVE THEY BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. NO TRANSFER OF SUCH SECURITIES WILL BE PERMITTED UNLESS A REGISTRATION STATEMENT UNDER THE ACT IS IN EFFECT AS TO SUCH SECURITIES, THE TRANSFER IS MADE IN ACCORDANCE WITH RULE 144 PROMULGATED UNDER THE ACT, OR, IN THE OPINION OF COUNSEL, REGISTRATION UNDER THE ACT IS UNNECESSARY IN ORDER FOR SUCH TRANSFER TO COMPLY WITH THE ACT AND WITH APPLICABLE STATE SECURITIES LAWS.

4. **Mutual General Releases**.

4.1. Subject to Subsection 4.3 of this Section, BioDrain, Atlantic Partners Alliance LLC, SOK Partners LLC, Joshua Kornberg, and Dr. Samuel Herschkowitz, for and on behalf of themselves and their respective past, present, future and former directors, officers, shareholders, members, owners, affiliates, assigns, associates, partners, licensees, employees, insurers, attorneys, and all persons or entities claiming or acting by, through, or in concert with them or any of them (the “BioDrain Releasors”), shall, and do, hereby, collectively and individually, release and forever discharge Davidson, and each of Davidson’s past, present, and future partners, associates, spouses, insurers, and attorneys, and all persons or entities claiming or acting by, through, or in concert with them, of and from any and all actions, causes of action, claims for relief, suits, obligations, debts, liens, contracts, promises, liabilities, injuries to person or property, claims, predicate acts, demands, damages, losses, costs, attorneys fees, or expenses, fixed or contingent, direct or indirect, in law or in equity, whether or not they arise out of or are related to the Action (“Claims”). The BioDrain Releasors acknowledge and agree that this release is a general and unconditional release and that the BioDrain Releasors do not reserve any rights whatsoever against Davidson or the other released parties enumerated above, except to the extent those rights are created expressly by this Agreement.

4.2. Subject to Subsection 4.3 of this Section, Davidson, for and on behalf of Davidson and Davidson’s past, present, and future partners, associates, spouses, insurers, or attorneys, and all persons or entities claiming or acting by, through, or in concert with them, shall, and do, hereby, collectively and individually, release and forever discharge BioDrain, Atlantic Partners Alliance LLC, SOK Partners LLC, Joshua Kornberg, and Dr. Samuel Herschkowitz, and each of their respective present, future and former directors, officers, shareholders, affiliates, assigns, associates, partners, licensees, employees, insurers, attorneys, and all persons or entities claiming or acting by, through, or in concert with them or any of them, of and from any and all Claims, whether or not they arise out of or are related to the Action. Further, Davidson is releasing all claims related to his employment with BioDrain including: all claims for discrimination and retaliation under any applicable federal, state, or local law, including, for example, rights and claims of discrimination and retaliation under the Minnesota Human Rights Act (“MHRA”), the St. Paul Human Rights Ordinance (“SPHRO”), the Minneapolis Civil Rights Ordinance (“MCRO”), the Age Discrimination in Employment Act (“ADEA”), the Older Workers Benefits Protection Act (“OWBPA”); the Americans with Disabilities Act, and Title VII of the Civil Rights Act of 1964 (“Title VII”); any claim for: breach of contract; wrongful termination; illegal termination; constructive discharge; termination in violation of public policy; breach of an implied contract; promissory estoppel; defamation; invasion of privacy; fraud; retaliation; and infliction of emotional distress; .all claims for any other unlawful employment practices arising out of or relating to Davidson’s employment or Davidson’s separation from employment; and all claims for any other form of employment compensation not provided in this Agreement (“Employment Claims”). Davidson acknowledges and agrees that Davidson’s release is a general and unconditional release and that Davidson does not reserve any rights whatsoever against BioDrain or the other released parties enumerated above, except to the extent those rights are created expressly by this Agreement. This Agreement does not prohibit Davidson from filing an administrative complaint, or an administrative charge of discrimination with, or cooperating or participating in an investigation or proceeding conducted by, the Equal Employment Opportunity Commission or other federal, local or state regulatory or law enforcement agency. If Davidson has filed or files a charge or complaint, Davidson agrees that the consideration that Davidson is receiving in this Agreement completely satisfies any and all claims in connection with such charge or complaint, and that Davidson is not entitled to any other monetary relief of any kind with respect to the Claims and Employment Claims that Davidson has waived in this Agreement. The foregoing release in this Section 4.2 shall not release or discharge Davidson’s rights or claim to ownership of BioDrain stock described in Sections 1.1 and 1.2 above or his rights under the stock options described in Section 1.3 above.

4.3. The foregoing releases in Subsections 4.1 and 4.2 of this Section shall not release or discharge any claims for relief based upon or arising out of a breach by any Settling Party of any of the obligations undertaken in or made under this Agreement. Nothing in this Agreement shall be deemed to release any claims for relief by any Settling Party that arise out of this Agreement, including, but not limited to, any claims for non-performance or breach of any Settling Party of any of the terms and conditions contained in this Agreement. Nothing in this Agreement releases Mr. Davidson's claim to ownership of BioDrain stock described in paragraphs 1.1 and 1.2 above or his rights under the stock options described in paragraph 1.3 above.

5. **Rights to Counsel, Consider, Revoke, and Rescind**

5.1. Davidson understands that BioDrain hereby advises Davidson to consult with an attorney prior to signing this Agreement and Davidson acknowledges that he has done so.

6. **Risk of Discovery of New Facts.**

6.1. Each Settling Party assumes the full risk of discovery of new or more complete understanding of any fact or law pertaining to the Claims or Employment Claims **that**, if presently known, would have affected this Agreement, the decision of that Settling Party to enter into this Agreement, or that Settling Party's execution of the Agreement. Each Settling Party understands that there is a risk that after the execution of this Agreement, facts different from, or in addition to, those facts now known, or believed to be true, may be discovered. Notwithstanding this, each Settling Party freely and knowingly enters into this Agreement.

6.2. It is the intent of each Settling Party to this Agreement to release all Claims and Employment Claims that such Settling Party has against the other Settling Party as provided in Sections 4.1, 4.2 and 4.3, whether such Claims and Employment Claims are known or unknown, with the exception of claims arising from this Agreement. Each Settling Party hereby acknowledges that there is a risk that, subsequent to the execution of this Agreement, such Settling Party may discover, incur or suffer from Claims or Employment Claims, which were unknown or unanticipated at the time this Agreement was executed. Each Settling Party acknowledges that such Settling Party is assuming the risk of such unanticipated Claims and Employment Claims, and agrees that this Agreement applies thereto.

7. **Costs and Fees.** The Settling Parties shall bear their own fees and/or costs incurred prior hereto in connection with any of their disputes or with this Agreement.

8. **Agreements of Davidson Relating to Confidentiality, Noncompetition and Nonsolicitation.** Davidson also hereby agrees as follows:

8.1. As used in this Agreement, "Confidential Information" includes, without limitation, all patterns, compilations, programs, and know how; designs, processes or formulae; software; market or sales information or plans, devices, methods, concepts, techniques, processes, source codes, data capture innovations, algorithms, user interface designs and database designs relating to the Company's products, services, systems or business; information acquired or compiled by the Company concerning actual or potential clients/customers, suppliers and business partners, including their identities, financial information concerning their actual or prospective business operations, identity and quantity of services and/or products provided by the Company, and any unpublished written materials furnished by or about them to the Company; and information concerning the Company's ownership, management, financial condition, financial operations, business activities or practices, sales activities, marketing activities or plans, research and development, pricing practices, legal matters, and strategic business plans. Notwithstanding the foregoing, Confidential Information does not include information in the public domain or generally known in the industry (unless due to breach of Davidson's duties under Section 8.2) or readily ascertainable from publicly available sources.

8.2. Davidson understands and agrees that his prior employment has created a relationship of confidence and trust between him and the Company with respect to all Confidential Information. Davidson represents and warrants that at all times, Davidson has kept, and will continue to keep in confidence and trust, all such Confidential Information, and has not and will not use or disclose any such Confidential Information without the written consent of the Company, except as may be required by law or legal process. Davidson agrees to take reasonable security measures to prevent accidental or unauthorized disclosure of Confidential Information.

8.3. Except as explicitly provided in this Agreement, Davidson has returned and has not retained any documents, records, data, apparatus, equipment or other physical property, whether or not pertaining to Confidential Information, which were furnished to Davidson by the Company or were produced by Davidson in connection with his employment.

8.4. Davidson represents and warrants that he has fully complied with the post-employment restrictions contained in Section 8.4 of the Prior Agreement.

8.5. Davidson agrees that it could be difficult to measure any damages caused to the Company which might result from any breach by him of the representations or promises set forth in this Section 8, and that in any event money damages could be an inadequate remedy for any such breach. Accordingly, Davidson agrees that if he breaches, or proposes to breach, any portion of this Section 8, the Company shall be entitled, in addition to all other remedies that it may have, to seek an injunction or other appropriate equitable relief to restrain any such breach.

9. **No Reliance on Representations Not Set Forth in this Agreement; Independent Judgment; Representations and Warranties; and Binding Effect of this Agreement.**

9.1. Each Settling Party acknowledges that at no time has any individual or entity made any representations, promises, or statements (whether oral or written) regarding the meaning, scope, benefits or obligations arising from this Agreement, except as set forth in this Agreement. Each Settling Party warrants and represents that it has not been induced to enter into this Agreement on the basis of any other representations, promises, or statements (whether oral or written) made by any Settling Party at any time, except representations set forth in this Agreement.

9.2. Each Settling Party declares and represents that such Settling Party has made such investigation of the facts relating to the matters addressed in this Agreement, as that Settling Party deems necessary. Each Settling Party further represents and warrants that in executing this Agreement that Settling Party is relying solely on such Settling Party's own judgment, belief, and knowledge and upon the advice and recommendation of that Settling Party's counsel concerning the nature, extent, and duration of such Settling Party's rights and obligations deriving from this Agreement.

9.3. Settling Party hereby represents and warrants that such Settling Party now holds all right, title to, and interest in any Claim or Employment Claim released by such Settling Party hereunder, and that such Settling Party has not assigned or otherwise transferred any right, title or interest in its Claims or Employment Claims released herein. Each Settling Party hereby covenants that it shall not assign or otherwise transfer any right, title, or interest in any Claims or Employment Claims released herein. Each Settling Party further represents and warrants that, with the exception of claims in the Action, such Settling Party is unaware of any other claims or lawsuits arising out of the facts that are the subject of the Action or that are described in the Recitals.

9.4. This Agreement and each provision thereof shall be binding upon, and inure to the benefit of, each Settling Party and such Settling Party's respective executors, administrators, representatives, successors, agents, and assigns.

10. **Confidentiality of this Agreement**. Each Settling Party agrees that this Agreement and any and all discussions constituting or concerning the negotiations leading to the Agreement shall be regarded as confidential and privileged communications between the parties, and that neither they, nor their counsel, will reveal or disclose such discussions or this Agreement to any other person, except as required by law, regulation or legal process, as necessary to enforce or comply with the terms of this Agreement, and Davidson may disclose such information to his spouse on the condition that she agrees to be bound by this confidentiality provision.

11. **Authorization and Cooperation.** Each Settling Party hereby represents and warrants that such Settling Party has the requisite power and authority, and each has taken all actions necessary, including obtaining the approval of BioDrain's board of directors (in the case of BioDrain), to execute and deliver this Agreement, to consummate the transactions contemplated hereby and to perform each of that Settling Party's obligations hereunder, and no other proceedings on such Settling Party's part are necessary to authorize this Agreement. If any additional acts are required to consummate the transactions contemplated hereby and/or to perform any Settling Party's obligations hereunder, each Settling Party covenants in good faith promptly to perform such additional acts, and to execute and deliver any documents that may be reasonably necessary to give effect to the terms of this Agreement**.**

12. **Governing Law/Venue.** The Agreement shall be construed and governed in accordance with the laws of the State of Minnesota, without regard to its rules regarding conflicts of laws, and of the United States of America. Any action or proceeding brought by any Settling Party to enforce this Agreement must be brought, heard and decided only in the County of Dakota, Minnesota, and the Settling Parties hereby waive any objections they may otherwise have to personal jurisdiction or venue in said courts. In the event of a dispute hereunder, the prevailing party shall be entitled to an award of reasonable attorney's fees and costs.

13. **Interpretation.** The Agreement shall be interpreted simply and fairly and not strictly in favor of or against any Settling Party. To this end, the Settling Parties agree that the terms of the Agreement are deemed to be the product of an arm's length negotiation and to have been jointly drafted.

14. **Time of the Essence.** Time is of the essence for all provisions of this Agreement.

15. **Modification.** Any amendment, supplement or modification of any term or condition of the Agreement must be in writing and signed by the Settling Party or Settling Parties to be bound and charged.

16. **Headings.** This Agreement uses headings for convenience and ready reference only. Such headings are not part of the terms hereof, and are not to be used or construed to define, limit, extend, modify or otherwise alter the terms and scope of this Agreement.

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17. **Execution in Counterparts.** This Agreement may be executed and delivered in counterparts by the Settling Parties which, when taken together, shall constitute one and the same instrument and this Agreement, when executed by all of the Settling Parties, shall be binding on each of the Settling Parties, even though each may have executed separate counterparts of this Agreement. Facsimile or emailed signatures shall be deemed as effective as original signatures for all purposes, but originals shall be provided by each Settling Party to the other Settling Parties.

18. **Entire Agreement.** This Agreement, the certificates reflecting the Existing Shares and the 2011 Option Shares, and the 2008 Option Agreement, as modified in this Agreement, constitute the entire agreement between the Settling Parties, are fully integrated, and supersede all other prior and contemporaneous oral and written agreements, negotiations, representations, understandings, and discussions of the Settling Parties, including the Prior Agreement. In entering the Agreement, no Settling Party is relying upon any promises, warranties, representations, facts, definitions, or inducements not specifically set forth in this Agreement.

PLEASE READ THIS DOCUMENT CAREFULLY. IT CONTAINS A GENERAL RELEASE OF CLAIMS AND EMPLOYMENT CLAIMS KNOWN AND UNKNOWN.

IN WITNESS WHEREOF, the Settling Parties have executed and delivered this Agreement.

THE UNDERSIGNED HAVE EACH READ THE FOREGOING AGREEMENT AND AGREE TO ITS TERMS AND CONDITIONS.

[SIGNATURES ON FOLLOWING PAGE]

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Dated: September 15, 2013	Skyline Medical Inc. formerly known as BioDrain Medical, Inc. Signed: /s/ Joshua Kornberg By: Joshua Kornberg Its: Chief Executive Officer
Dated: September 11, 2013	Atlantic Partners Alliance LLC Signed: /s/ Samuel Herschkowitz By: _______________________________ Its: _______________________________
Dated: September 15, 2013	SOK Partners LLC Signed: /s/Joshua Kornberg By: _______________________________ Its: _______________________________
Dated: September 15, 2013	Joshua Kornberg Signed: /s/ Joshua Kornberg
Dated: September 11, 2013	Dr. Samuel Herschkowitz Signed: /s/ Samuel Herschkowitz
Dated: September 12, 2013	Kevin Davidson Signed: /s/ Kevin Davidson

Exhibit 31.1

CERTIFICATION
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Joshua Kornberg, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Skyline Medical Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2013

/s/ Joshua Kornberg
Joshua Kornberg
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Bob Myers, certify that:

1. I have reviewed the quarterly report on Form 10-Q of Skyline Medical Inc.;

2. Based on my knowledge, this report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements in light of the circumstances under which some statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during he registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report(that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2013

/s/ Bob Myers
Bob Myers
Chief Financial Officer

Exhibit 32.1

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Skyline Medical Inc. (the "Company") for the quarter ended September 30, 2013 as filed with the Securities and Exchange Commission (the "Report"), I, Joshua Kornberg, Chief Executive Officer (Principal Executive Officer) and, I, Bob Myers, Chief Financial Officer (Principal Financial Officer) of the Company, hereby certify as of the date hereof, solely for purposes of § 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. § 1350, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: November 14, 2013

/s/ Joshua Kornberg
Joshua Kornberg
Chief Executive Officer

Date: November 14, 2013

/s/ Bob Myers
Bob Myers
Chief Financial Officer