As filed with the Securities and Exchange Commission on February 12, 2009
Registration Statement No. 333-155299

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

AMENDMENT NO. 2 TO FORM S-1/A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

BIODRAIN MEDICAL, INC.
(Exact name of registrant as specified in its charter)

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

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

Kevin R. Davidson
Chief Executive Officer
2060 Centre Pointe Boulevard, Suite 7
Mendota Heights, Minnesota 55120
(651) 389-4800
(Name, Address, Including Zip Code and Telephone Number,
Including Area Code, of Agent for Service)

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b2 of the Exchange Act.

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

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be Registered	Proposed maximum offering price per share	Proposed maximum aggregate offering price	Amount of registration fee
Common stock, $0.01 par value (1)	7,101,266	N/A	$ 2,485,443	$ 97.68
Common stock underlying warrants to purchase common stock (2)	4,689,291	$ .46	$ 2,157,074	$ 84.77
Common stock underlying convertible debentures (1)	620,095	N/A	$ 217,034	$ 8.53
Common stock underlying warrants (3)	620,095	$ .42	$ 217,034	$ 8.53
TOTAL	13,030,747	N/A	$ 5,076,585	$ 199.51

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

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

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

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

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

Subject to Completion, dated February [ ], 2009

PRELIMINARY PROSPECTUS

BioDrain Medical, Inc.

13,030,747 Shares of Common Stock

$0.01 par value

This prospectus covers the resale by selling shareholders named on page 70 of up to 13,030,747 shares of common stock which include:

- 7,101,266 shares of common stock;
- 5,309,386 shares of common stock underlying common stock purchase warrants, which includes 4,689,291 and 620,095 shares of common stock underlying warrants issued in conjunction with an October 2008 financing and bridge loans we undertook in July 2007, respectively; and
- 620,095 shares of common stock underlying the convertible notes.

There is no current trading market for our securities and this offering is not being underwritten. These securities will be offered for sale by the selling shareholders identified in this prospectus in accordance with the methods and terms described in the section of this prospectus titled “Plan of Distribution.” The selling shareholders will sell the securities at $0.46 per share, until our shares are quoted on the OTC Bulletin Board and thereafter at prevailing market prices or privately negotiated prices. We intend to seek and obtain quotation of our common stock for trading on the OTC Bulletin Board. We intend to cause a market maker to submit an application for quotation to the OTC Bulletin Board before March 31, 2009. Westminster Securities Corporation has agreed to submit an application to the OTC Bulletin Board on our behalf.

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

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

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

The date of this prospectus is February 12, 2009

Table of Contents

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

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

Prospectus Summary

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

Our Company

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

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

Risks Related to Our Business

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

The Offering

The shares issued and outstanding prior to this offering consist of 8,130,841 shares of common stock and do not include:

- 5,816,577 shares of common stock issuable upon the exercise of warrants having a range of exercise prices from $.02 to $3.76 per share (consisting of 5,309,386 shares of common stock underlying the warrants we are registering pursuant to this registration statement; 507,191 shares of common stock reserved for issuance upon the exercise of outstanding warrants granted to certain investors and consultants.
- outstanding options to purchase 1,131,174 shares of our common stock;
- 975,405 shares of common stock reserved for issuance under our 2008 Equity Incentive Plan;
- 620,095 shares of common stock issuable upon conversion of debt we obtained in July 2007; and

- 297,142 shares subject to issuance upon conversion of certain notes.

We are registering 13,030,747 shares for sale by the selling shareholders identified in the section of this prospectus titled “Selling Security Holders.” The shares included in the table identifying the selling shareholders consist of:

- 7,101,266 shares of common stock;
- 5,309,386 shares of common stock underlying common stock purchase warrants, which includes 620,095 shares of common stock underlying warrants issued in conjunction with a bridge loan we undertook in July 2007; and
- 620,095 shares of common stock underlying the convertible notes.

After this offering, assuming the exercise of all warrants and options including underlying shares which are covered by this prospectus, we would have 15,698,676 shares of common stock outstanding, which does not include the 975,405 shares of common stock reserved for issuance under our 2008 Equity Incentive Plan.

BioDrain Medical, Inc. will not receive any of the proceeds from the sale of these shares. However, we may receive up to $2,417,676 upon the exercise of warrants. If some or all of the warrants are exercised, the money we receive will be used for general corporate purposes, including working capital requirements. We will pay all expenses incurred in connection with the offering described in this prospectus, with the exception of the brokerage expenses, fees, discounts and commissions which will all be paid by the selling shareholders. Information regarding our common stock, warrants and convertible notes is included in the section of this prospectus entitled “Description of Securities.”

Corporate Information

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

Reverse Stock Split

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

On October 20, 2008, our board of directors approved a subsequent 1-for-1.33176963 reverse stock split. As a result, the authorized number of our common stock of 15,942,607 was proportionately divided by 1.33177 to 11,970,994. On October 20, 2008, our board of directors also approved a resolution to increase the number of authorized shares of our common stock from 11,970,994 to 40,000,000 and such action was approved by the Company’s shareholders holding a majority of the shares entitled to vote thereon at a special meeting of shareholders held on December 3, 2008.

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

Risk Factors

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

Risks Related to Our Business

Our limited operating history makes evaluation of our business difficult.

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

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

Because we are a development stage company and not profitable and expect to incur additional losses, we will require additional financing to sustain our operation.

We incurred a net loss of approximately $159,900 and $273,000, respectively for the fiscal years ended December 31, 2007 and 2006 and $928,995 and $302,100 for the nine months ended September 30, 2008 and 2007, respectively. These nine month amounts include a significant amount of employee accrued payroll and consulting fees from a member of our board of directors. That amount was reduced by $346,700 at December 31, 2007 and consulting fees from the board member were no longer accrued in 2008. We are currently negotiating with the individuals involved to compensate them for the remaining portion of the accrual. However, there is no guarantee that these negotiations will be successful. We have never earned a profit and we anticipate that we will continue to incur losses for at least the next 12 months. We continue to operate on a negative cash flow basis. We have not yet generated revenues and are still developing our planned principal operations. We believe that we will need to raise at least an aggregate of $3 million from future offerings in order to have sufficient financial resources to fund our operations for the next 12 months because we are running a cash flow deficit. Although we will not receive any proceeds from the sale of the shares offered in this offering, we may receive up to $2,417,766 upon exercise of warrants, the underlying shares of which are included in the registration statement of which this prospectus is a part. If received, such funds will be used for general corporate purposes, including working capital requirements. However, shareholders are not obligated, and we are not currently planning on any exercising of the warrants. Accordingly, we will rely on pursuing alternative sources to obtain the entire amount of funding needed to fund our operations for the next 12 months. We may need additional funds to continue our operations, and such additional funds may not be available when required.

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

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

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

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

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

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

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

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

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

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

Our revenues would be materially adversely affected if our intellectual property were found to infringe the intellectual property rights of others. Two individuals, Jay D. Nord and Jeffrey K. Drogue, filed a provisional patent application disclosing a particular embodiment for a medical waste fluid collection system (the "Nord/Drogue Embodiment"). We engaged the services of Marshall C. Ryan to further develop the medical waste fluid collection system for commercialization. Mr. Ryan conceived of an alternative embodiment for the medical waste fluid collection system (the "Ryan Embodiment"). An international (PCT) patent application was subsequently filed claiming priority to the earlier filed provisional application of Nord and Drogue and disclosing and claiming both the Nord/Drogue Embodiment and the Ryan Embodiment. The national stage applications were filed in the U.S., Europe and Canada based on the PCT application. During the national stage prosecutions, the European and U.S. patent offices each rejected the patent claims covering the Nord/Drogue Embodiment as being unpatentable over the prior art. The Canadian patent office has not yet examined the Canadian national stage application. The claims were amended in both the U.S. and European applications to claim only the subject matter of the Ryan Embodiment and Mr. Ryan was added as a named inventor. As required under U.S. law, we removed Nord and Drogue as named inventors from the U.S. application because they were no longer inventors to the subject matter of the remaining patent claims. A U.S. patent was granted to us on December 30, 2008 (U.S. Patent No. 7,469,727). A European patent was granted to us on April 4, 2007 (Patent No. EP1539580) (collectively, "the Patents").

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

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

Our industry is highly competitive with numerous competitors from well-established manufacturers to innovative start-ups. A number of our competitors have significantly greater financial, technological, engineering, manufacturing, marketing and distribution resources than we do. Their greater capabilities in these areas may enable them to compete more effectively on the basis of price and production and more quickly develop new products and technologies.

We estimate that the total market for surgical suction canisters is approximately $120,000,000 and has a compound annual growth rate of 5%. Cardinal Health, Inc., a $90 billion plus medical manufacturer and distributor, is a leading competitor. Another one of our competitors is Stryker Instruments, a wholly-owned subsidiary of Stryker Corporation, which is a publicly-traded company with revenues of approximately $5 billion, and has a leading position in this market. Cardinal Health, Inc. has recently begun advertising a powered device similar to that which Stryker currently markets. Both of these competitors are better capitalized than we are.

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

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

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

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

We are currently preparing and planning to file a 510(k) submission with the U.S. Food and Drug Administration (the “FDA”) with respect to a product classification as a Class II non-exempt device. We cannot generate revenues from our product in the surgical operating room without FDA approval. However, there is no assurance that we will succeed in obtaining FDA approval.

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

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

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

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

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

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

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

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

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

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

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

These potential restructuring changes were put in place in the October 2008 financing as a mechanism to offer business alternatives in the event that FDA approval for our product was not obtained. We were able to attract more investors for that financing by providing the Investors with the restructuring agreement, which provides them with potential value (ownership of a public entity) should we not achieve FDA approval by the end of August 2009. As discussed elsewhere in the risk factors, we cannot generate revenues from our products without prior FDA approval of our 510(K) application. Their concern was that failure to obtain FDA approval may eliminate our prospectus and the value of our assets could have de minimis or no value. Therefore, the Investors wanted a mechanism to salvage some of their investment in such event by possibly attracting a reverse merger candidate. The Company is not in any discussions or negotiations with any such candidate at this time. The potential impact on our business of the restructuring could be that our medical device operations to be eventually sold to a third party, spun-off or otherwise liquidated

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Securities

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

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

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

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

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

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

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

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

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

We cannot give you any assurance that a broader or more active public trading market for our common stock will develop or be sustained.In addition to trading on the OTC Bulletin Board, our ultimate intention is to apply for trading on either the NASDAQ Capital Market or the NYSE Alternext U.S. LLC (formerly American Stock Exchange) at such time that we meet the requirements for listing on those exchanges. We currently do not meet the objective listing criteria for listing on those exchanges and there can be no assurance as to when we will qualify for either of these exchanges or that we will ever qualify for these exchanges.

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

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

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

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

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

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

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

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

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

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

Shares eligible for future sale may adversely affect the market.

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

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

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

Special Note Regarding Forward-Looking Statements

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

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

- our ability to raise capital when we need it;
- our ability to market and distribute or sell our Fluid Management System (FMS) and related products; and
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others.

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

Use of Proceeds

We will not receive any proceeds from the sale of the shares by the selling shareholders. All proceeds from the sale of the shares offered hereby will be for the account of the selling shareholders, as described below in the sections entitled “Selling Security Holders” and “Plan of Distribution.” However, we may receive up to $2,417,766 upon exercise of warrants with exercise prices ranging from $.42 to $.46 per share, the underlying shares of which are included in the registration statement of which this prospectus is a part. If received, such funds will be used for general corporate purposes, including working capital requirements. With the exception of any brokerage fees and commissions which are the obligation of the selling shareholders, we are responsible for the fees, costs and expenses of this offering which are estimated to be approximately $225,000, inclusive of our legal and accounting fees, printing costs and filing and other miscellaneous fees and expenses.

Determination of Offering Price

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

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

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

At this time, our common shares are not traded on any public markets. We currently have 8,130,841 shares of common stock issued and outstanding. We have 92 shareholders of record of our common stock.

We also have outstanding warrants to purchase 5,816,577 shares of our common stock, which include (i) 5,309,386 shares of common stock underlying the warrants we are registering pursuant to this registration statement; and (ii) 507,191 shares of common stock reserved for issuance upon the exercise of outstanding warrants granted to certain consultants and investors. We also have outstanding options to purchase 1,131,374 shares of our common stock, which include 300,000 shares of common stock reserved for issuance upon the exercise of outstanding options granted pursuant to employment agreements with an officer and an employee of the Company.

After this offering, assuming exercise of all the warrants, we will have 15,698,676 shares of common stock outstanding, which does not include 975,405 shares of common stock reserved for issuance under our 2008 Equity Incentive Plan and 297,142 shares underlying certain convertible notes, but which does include outstanding notes that may be converted into 620,095 shares of our common stock which were issued in conjunction with a bridge loan we undertook in July 2007. Of the amount outstanding, 950,995 shares could be sold pursuant to Rule 144 under the Securities Act of 1933, as amended (assuming compliance with the requirements of Rule 144).

Dividends

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

Securities Authorized for Issuance under Equity Compensation Plans

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

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

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

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

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

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

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

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

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

Options

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

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

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

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

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

Stock Appreciation Rights

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

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

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

Restricted Stock

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

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

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

Other Securities For Issuance Upon Certain Contingencies

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

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

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

Overview

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

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

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

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

As of September 30, 2008, we have funded our operations through a bank loan of $41,400, an equity investment of $68,000 from the Wisconsin Rural Enterprise Fund ("WREF") and $30,000 in early equity investment from several individuals. WREF had also previously held debt in the form of three loans of $18,000, $12,500 and $25,000. In December 2006, WREF converted two of the loans totaling $37,500 into 43,000 shares of common stock. In August 2006, we secured a $10,000 convertible loan from one of our vendors. In February 2007, we raised $4,000 in officer and director loans and in March 2007, we secured a $100,000 convertible note from two private investors. In July and August 2007, we secured a convertible bridge loan of $170,000. In June 2008, we paid off the remaining $18,000 loan from WREF and have raised a net of $1,238,000 to date through our October 2008 financing.

Critical Accounting Policies and Estimates

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

Accrued liabilities are based on amounts computed from operations; for example it contains approximately $84,000 of unpaid consulting fees. Accrued interest is computed from outstanding loans at agreement interest rates. Compensation expense is based on estimates of stock option and warrants valuation at issue amounts. Most of the warrant issue valuation is priced at $.46 per share, the price which investors in the October 2008 funding were granted. The major assumption in these valuations was that we believed that these initial valuations were going to improve by completing testing with a private product testing company known as TUV SUD America, Inc. and approval of our 510(K) submission with the FDA and that they would add value to the initial investment valuation, as we were advised by regulatory consultants whom we trust that such approvals were forthcoming and had a high probabilities of success.

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

Results of Operations

Nine Months Ended September 30, 2008 and 2007

Revenue. None.

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

General and administrative expense increased from $126,300 for the nine months ended September 30, 2007 to $826,400 for the nine months ended September 30, 2008. General and administrative expense increased primarily due to an increase in compensation expense of $210,400, an increase in professional service fees of $194,000 and an increase in salaries of $300,000. The increase in stock based compensation expense resulted from accounting for stock option awards using the “grant date fair value” method as specified in SFAS 123R. Professional fees increased due to expenses related to the preparation and filing of our Form S-1 registration statement. Salaries increased as a result of paying nearly full annual salary rates in 2008, up from 75% salary rates paid in 2007. We anticipate that general and administrative expense will increase in absolute dollars as we incur increased costs associated with a growing company, of adding personnel and proceeding from the development phase to the operating phase, and operating as a public company.

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

Research and development (R&D) costs increased from $400 for the nine months ended September 30, 2007 to $91,400 for the nine months ended September 30, 2008. The increase was a result of an accumulation of unbilled work from 2003 through 2007. Such work consisted of material and labor charges for building and testing various improvements in our FMS unit, including pumps, sensors, and cover. In August 2008 we entered into an agreement with Mid-State Stainless, Inc., the company who performed the product development work and owned by Marshall Ryan, to pay $100,000 in full settlement of the R&D work on or before June 2009. The amount has not yet been paid and remains in accounts payable as of the date of this registration statement. We expect our development expense to increase a moderate amount in future periods as we finalize our product for market.

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

Years Ended December 31, 2007 and 2006

Revenue. None

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

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

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

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

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

Liquidity and Capital Resources

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

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

Capital Requirements

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

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

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

To date, our operations have been funded through a bank loan in the original amount of $41,400,private party loans totaling $10,000, convertible debt in the amounts of $170,000 and $100,000 and equity investments totaling $1,583,000. As of September 30, 2008, we had accounts payable of $284,600 and accrued liabilities of $277,100, $169,700 of which are for accrued payroll from December 2007 to present.

Nine Months Ended September 30, 2008 and 2007

Net cash used by operating activities was $787,056 for the nine months ended September 30, 2008 as compared with net cash used of $224,861 for the nine months ended September 30, 2007. The increase was due primarily to a greater net loss of $626,944 offset, in part by an increase in accrued payroll expenses of $49,000, and an increase in (non-cash) vested options of $193,900. Net cash used by investing activities was $29,941 for the nine months ended September 30, 2008 as compared with $43,460 for the nine months ended September 30, 2007. The difference was due to the larger legal expense of $22,200 in intellectual property that was partially offset by the purchase of office furniture in 2008 amounting to $8,700. Net cash provided by financing activities was $1,557,700 for the nine months ended September 30, 2008 and $285,051 for the nine months ended September 30, 2007. The increase in 2008 was due to the receipt of additional investment capital from the funding that commenced in 2007 and was completed as of October 2008.

Years Ended December 31, 2007 and 2006

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

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

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

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

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

Items such as accrued payroll and convertible debt, totaling $270,000, would be difficult to fully satisfy with the proceeds of the past financings. We have been in contact with the holders of these convertible notes. These holders, while legally able to demand payments, have been willing to work with us regarding the satisfaction of their convertible debts, which could be either from conversion to our common stock or through repayment of the debt from funds raised in future financings. Any formal payment demand by these convertible note holders prior to our securing additional financing would create a severe liquidity issue for the Company. Such note holders could bring a cause of action against the Company to compel repayment of the debt obligations which could deplete the Company's cash position.

Accrued payroll expense items are due to management and board members. All individuals are aware of the liquidity position of the Company and have agreed to not be paid until such time as the Company obtains at least another $3 million of additional financing, with the exception of Lawrence Gadbaw, our Chairman, who began receiving $2,000 per month in October 2008 in repayment of his $46,000 accrued salary liability. After another $3 million of additional financing has been obtained, the amount of accrued payroll expense items due to management and board members that will be paid from the proceeds of such financing will depend upon the terms negotiated with such equity investors.

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

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

The current economic turmoil has a significant impact on the overall funding environment, and we cannot assure you that our opportunity will be positively received by potential investors. We are not planning on any significant capital or equipment investments and we will only have a few human resource additions over the next 12 months. A significant amount of funds will be utilized to launch our product into the market. With the funds already available to fund our expenses associated with FDA approval, and with the product development complete, future funds, if any, will be used primarily to launch our product into the market.

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

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

Commitments and Contingencies

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

The Company has a convertible debenture with Andcor Companies, Inc. (“Andcor”) of $10,000 with interest at 10.25% that matured in 2007. The debenture is convertible to shares of the Company’s common stock at the lower of $0.90 per share or the price per share at any equity financing is completed (currently re-set to $.35 per share). The convertible debenture has not yet been paid, and it is currently in default. While Andcor could demand payment on this note at any time, they have verbally expressed an interest in working with us to wait until additional funds are secured by the Company. Further, Andcor has left open the possibility of converting the note into shares of the Company’s common stock, which would require no cash outlay.

Our contractual obligations consisted of the following as ofSeptember 30, 2008.

	Payment Due by Period as of September 30				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long Term Debt	$ 315,359	$ 185,800	$ 25,300	$ 107,300	—
Operating Leases	—	—	—	—	—
Capital Leases	—	—	—	—	—
Total Contractual Cash Obligations	$ 315,359	$ 185,800	$ 25,300	$ 107,300	—

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

	September 30, 2008	September 30, 2007
Notes payable to several individuals due April 2008 including 8% fixed interest and is now overdue. The notes are convertible into 620,096 shares of the Company's common stock and automatically convert at the effective date of this registration statement.	$ 170,000	$ —
Note payable to bank in monthly installments of $1,275/including variable interest at 2% above the prevailing prime rate (6.00% at September 30, 2008) to August 2011 when the remaining balance is payable. The note is personally guaranteed by executives of the Company.	41,359	49,901
Note payable to NWBDC with interest only payments at 8% to December 2008 when the remaining balance is payable. The note is personally guaranteed by executives of the Company.	—	18,000
Notes payable to two individuals in interest only payments at 12% to March 2012 when the remaining balance is payable. The notes are convertible into 285,715 shares of stock in the Company at $.35 per share.	100,000	100,000
Notes payable to four shareholders of the Company that are overdue. The notes are convertible into 11,429 shares of stock in the Company at $.35 per share.	4,000	4,000
Total	315,359	181,901
Less amount due within one year	185,800	39,900
Long-Term Debt	$ 129,559	$ 142,001

Cash payments for interest were $2,718 for the nine months ended September 30, 2008 and $3,964 for the same period in 2007. The notes payable of $10,000, $170,000, $100,000 and $4,000 are delinquent and could be called by the holders, putting additional strains on our liquidity. The note for $170,000 contains provisions for a one-time penalty of $25,000 if this registration statement is not filed within 120 days of August 31, 2008 and $5,000 per month, beginning March 2009, until the registration statement is declared effective by the SEC with the maximum penalty of approximately $250,000..

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

1. All Company assets will be distributed to a wholly-owned subsidiary ("Privco"). Privco will have the identical number of common shares outstanding as the Company. The Investors will have the same percentage ownership of Privco that they had in the Company and will maintain their shares of Company common stock.
2. BioDrain Shareholders existing prior to the October 2008 financing (the "Founders") will cancel all Company stock held by the Founders and the Founders will no longer own any Company equity. Ownership of shares of the Company's common stock by the Investors would not be affected.

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

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

In 2007, Mr. Davidson and Mr. Rice each earned less in base salary than they were entitled to under their employment agreements due to lack of funds by the Company. In December 2007, upon request from our funding brokers, the Company reduced accrued payroll liabilities by a total of $346,714 through November 2007. This total was approximated from waived compensation from Mr. Davidson in the amount of $70,000, waived compensation from Mr. Rice in the amount of $125,000, waived compensation from Mr. Gadbaw in the amount of $138,541 and waived compensation from an employee who left the Company in April 2006 in the amount of $13,369. In exchange therefor, Mr. Davidson will be granted a one-time cash bonus of $23,000 as well as an option to purchase 80,000 shares of common stock at $.35 per share and Mr. Rice will be granted a one-time cash bonus of $46,000 as well as an option to purchase 160,000 shares of common stock at $.35 per share when the Company raises an additional $3 million of funding subsequent to the financing completed in October 2008. Mr. Gadbaw will be granted an option to purchase 160,000 shares of common stock at $.35 per share upon the Company raising an additional $3 million and is currently receiving $2,000 per month until a total of $46,000 of accrued salary liability is paid to him.

Amortization of Intangible Assets

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

Income Tax Expense

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

Stock Options and Warrants

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

We adopted the provisions of FASB Statement No. 123R, *Share-Based Payment* (SFAS 123R) effective January 1, 2006. As specified in SFAS 123R, we value stock option awards using the "grant date fair value" method and expense them on a straight-line basis over the service period, generally the vesting period. We opted for early adoption of the provisions of SFAS 123R. The provisions of SFAS 123R are applicable to stock options awarded beginning in 2005 and we are recognizing compensation expense for options granted in 2005 and thereafter.

We have elected to value the options using the Black-Scholes-Merton option valuation model. The fair value of these options was calculated using a risk-free interest rate of 3.00% to 4.50%, an expected life of 2.5 to 5 years, an expected volatility of 45% and a dividend rate of 0%. Compensation recognized in our financial statements was $10,962 and $13,644 for the years ended 2007 and 2006, respectively, and $210,389 and $8,245 for the nine months ended September 30, 2008 and 2007, respectively.

A summary of stock option and warrant activity for the years ended December 31, 2007 and 2006 and for the nine months ended September 30, 2008 is presented below:

	Stock Options (1)		Warrants (1)	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding at December 31, 2005	17,956	$ 1.67	20,950	$ 2.62
Issued	23,942	1.67	71,826	0.85
Outstanding at December 31, 2006	41,898	$ 1.67	92,776	$ 1.25
Issued	5,985	1.67	28,502	0.35
Outstanding at December 31, 2007	47,882	$ 1.67	121,278	$ 1.04
Issued	1,083,292	0.17	5,075,204	0.45
Outstanding at September 30, 2008	1,131,174	$ 0.24	5,196,482	0.47

(1) Adjusted for the reverse stock splits in total at June 6, 2008 and October 20, 2008, of1-for-1.670705.

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

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

Range of Exercise Prices	Shares	Weighted Average Remaining Life
At December 31, 2007:		
Options:		
$.35	11,970	4.37
$1.67	41,898	3.31
Warrants:		
$0.02	35,913	5.45
$0.35	28,502	4.17
$1.67	44,892	3.69
$3.34	11,971	0.79
At September 30, 2008:		
Options:		
$.01	543,292	9.68
$.35	540,000	.57
$1.67	47,882	2.75
Warrants:		
$0.02	71,826	5.70
$0.35	28,502	3.42
$0.46	4,889,291	2.63
$1.67	44,892	2.94
$3.76	11,971	0.04

Stock options and warrants expire on various dates from October 2008 to June 2018. In October 2007, the exercise price on the $3.34 warrants changed to $3.76 in accordance with a common stock warrant purchase agreement.

We determined that we would cause our common stock to be reverse split such that 1,920,000 shares of our common stock on a fully-diluted basis would be outstanding among our equity holders, prior to the investment by the October 2008 financing (such shareholders also referred to as the “original shareholders,” the “Founders,” and June 2007 bridge loans. Since the total of our fully-diluted shares of common stock was greater than 1,920,000, our board of directors approved a reverse stock split of 1-for-1.2545. After this split was approved, additional options and warrants were identified, requiring a second reverse stock split in order to reach the 1,920,000. The second reverse stock split on the reduced 1-for-1.2545 balance was determined to be 1-for-1.33176963. Taken together, if only one reverse stock were performed, the number would have been a reverse stock split of 1-for 1.670705.

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

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

On October 20, 2008, our board of directors also approved a resolution to increase the number of authorized shares of our common stock from 11,970,994 to 40,000,000, which was approved by the Company’s shareholders holding a majority of the shares entitled to vote thereon at a special meeting of shareholders held on December 3, 2008.

The table below reflects the effect of the reverse stock splits on our shares outstanding.

Reverse Stock Split Table

	Number of Shares Outstanding		Reverse Split Ratio
	Before	After	
As of June 30, 2008:			
- original shareholders	1,376,105(1)	1,096,935	1.2545
- new investors, other	3,720,293	3,720,293	
Total	5,096,398	4,817,228	
As of September 30, 2008:			
- original shareholders	1,096,935	1,096,935	
- new investors, other	6,997,842	6,997,842	
Total	8,094,237	8,094,237	
As of October 20, 2008:			
- original shareholders	1,096,935	823,676	1.3317696
- new investors, other	7,307,165	7,307,165	
Total	8,403,560	8,130,841	
As of October 30, 2008 (closing date):			
- original shareholders	823,676		
- new investors, other	7,307,165		
Total	8,130,841		

(1) 1,376,105 divided by 1.670705 equals 823,676.

Warrants

In 2005 and 2006, we granted warrants to to 6 individuals to purchase an aggregate of 17,958 shares (2,993 shares each) of common stock at $1.67 per share to Debbie Heitzman, Mary Wells Gorman and David Feroe for their services on the Medical Advisory Board and to Karen Ventura, Nancy Kolb and Kim Shelquist for their sales and marketing advisory services.

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

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

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

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

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

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

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

Stock and Stock Options

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

On December 14, 2005, we issued 7,482 shares of common stock, at $.0167 per share, to officers Lawrence Gadbaw and Gerald Rice as compensation for personal guarantees on Company loans.

On May 16, 2006, the Company issued 71,906 shares of common stock, at $.0167 per share, to the inventor of our intellectual property, Marshall C. Ryan, for the development work he performed with respect to our product.

On August 8, 2006, we issued 14,964 shares of common stock, at $.0167 per share, to Andcor Companies, Inc. in partial payment of an invoice.

On October 23, 2006, we issued 8,979 shares of common stock, at $.0167 per share, to a former employee as a part of his compensation package in his employment agreement.

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

On December 1, 2006, we issued 2,983 shares of common stock, at $1.67 per share, to pay a consulting fee to Wisconsin Business Innovation Corporation, a related firm of WREF.

On January 30, 2007 we fully repaid a Company loan of $1,000 due one of its former employees by issuing 599 shares of common stock at $1.67 per share.

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

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

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

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

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

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

Other Securities For Issuance Upon Certain Contingencies

In 2007, three of our current and former directors/executive officers, Lawrence Gadbaw, Gerald Rice and Kevin Davidson, and a former employee that left the Company in April 2006, agreed to waive an aggregate of approximately $346,700 in accrued, unpaid salaries for their services through June 2007 and Mr. Morawetz agreed to defer his consulting fees of $84,963 (please see description below). In December 2007, upon request from our funding brokers, we reduced accrued payroll liabilities by $346,714 through November 2007. This total was waived compensation from Mr. Davidson in the amount of $70,000, waived compensation from Mr. Rice in the amount of $125,000, waived compensation from Mr. Gadbaw in the amount of $138,541 and waived compensation from an employee who left the Company in April 2006 in the amount of $13,369. In exchange therefore, Mr. Gadbaw and Mr. Rice will each be granted options to purchase 160,000 shares of common stock and Mr. Davidson will be granted an option to purchase 80,000 shares of common stock, all at $.35 per share upon the Company raising an additional $3 million in financing subsequent to the October 2008 financing. In addition, Mr. Rice will be entitled to receive a one-time cash bonus of $46,000 and Mr. Davidson willbe entitled to receive a one-time cash bonus of $23,000 when the Company raises an additional $3 million subsequent to the October 2008 financing. Mr. Gadbaw is currently receiving $2,000 per month until a total of $46,000 of accrued salary liability is paid.

In September 2002, an oral agreement was made with director Peter Morawetz whereby he would provide sales, marketing and general administrative support to the Company for a fee of $1,770 per month. The Company's expectation at the time was that the Company would have received equity financing to fund these payments but the Company did not receive that funding. Pursuant to an oral agreement with Mr. Morawetz the Company could defer payment of these amounts. The Company accrued these fees through August 2006 when Mr. Morawetz's support services ended. The fees accrued totaled $84,963 but no amount has been paid. The Company and Mr. Morawetz have not agreed upon the amount, the form or the timing of payment of these accrued fees.

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

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

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

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

Litigation

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

Off-Balance Sheet Arrangements

We do not have any off-balance sheet transactions.

Dividend Policy

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

Description of Business

Overview

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

We were founded as a Minnesota corporation in 2002 by Lawrence Gadbaw, who has over 40 years of experience in the medical devices field, Peter L. Morawetz, who has extensive experience consulting with development-stage companies in the medical and high technology field, Jay Nord, Jeffery K. Drogue and Gerald Rice. Our address is 2060 Centre Pointe Boulevard, Suite 7, Mendota Heights, Minnesota 55120. Our telephone number is (651) 389-4800 and our website address is www.biodrainmedical.com. The website is not a part of this registration statement.

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

Private Placement Financing

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

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

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

Industry and Market Analysis

Infectious and Biohazardous Waste Management

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

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

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

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

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

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

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

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

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

There are currently approximately 40,000 operating rooms and surgical centers in the U.S. (AHA Hospital Statistics, 2008 edition). The hospital market has typically been somewhat independent of the U.S. economy; therefore we believe that our targeted market is not cyclical, and the demand for our products will not be dependent on the state of the economy. We benefit by having our products address both the procedure market of nearly 50 million procedures (AHA, Beyond Health Care, January 2009) as well as the hospital operating room market (approximately 40,000 operating rooms).

Current Techniques of Collecting Infectious Fluids

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

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

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

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

Although all of these protection and disposal techniques are helpful, they represent a piecemeal approach to the problem and fall short of providing adequate protection for the surgical team and other workers exposed to infectious waste. A major spill of fluid from a canister, whether by direct contact as a result of leakage or breakage, splash associated with the opening of the canister lid to add gel, while pouring liquid contents into a hopper, or during the disposal process, is cause for concern of acute exposure to human blood components–one of the most serious risks any worker faces in the performance of their job. Once a spill occurs, the entire area must be cleaned and disinfected and the exposed worker faces a potential of infection from bloodborne pathogens. These pathogens include, but are not limited to, HIV, HPV, and other infectious agents. Given the current legal liability environment the hospital, unable to identify at-risk patients due to concerns over patient rights and confidentiality, must treat every exposure incident as a potentially infectious incident and treat the exposed employee according to a specific protocol that is both costly to the facility and stressful to the affected employee and their co-workers. In cases of possible exposure to communicable disease the employee could be placed on paid administrative leave, frequently involving worker's compensation, and additional workers must be assigned to cover the affected employee's responsibilities. The facility bears the cost of both the loss of the affected worker and the replacement healthcare worker in addition to any ongoing heath screening and testing of the affected worker to confirm if any disease has been contracted from the exposure incident. Employee morale issues also weigh heavily on staff and administration when a healthcare worker suffers a potentially serious exposure to bloodborne pathogens.

Canisters are the most prevalent means of collecting and disposing of infectious fluids in hospitals today. Traditional, non-powered canisters and related suction and fluid disposable products are exempt and do not require FDA approval. Our management believes that our virtually hands free technology will (a) significantly reduce the risk of healthcare worker exposure to these infectious fluids by replacing canisters, (b) further reduce the risk of worker exposure when compared to powered canister technology that requires transport to and from the operating room, (c) reduce the cost per procedure for handling these fluids, and (c) enhance the surgical team's ability to collect data to accurately assess the patient's status during and after procedures.

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

Our existing competitors that already have products on the market have a clear competitive advantage over us in terms of brand recognition and market exposure. In addition, the aforementioned companies have extensive marketing and development budgets that could overpower an early-stage company like ours. Information obtained by the Company from surgical clinicians during interviews indicates that Stryker Instruments has the dominant market share position. Cardinal Health, Inc., though having FDA concurrence, has not yet made significant sales into the market place. These clinicians have also indicated that the competitive devices are used in select procedures and often in some, but not all, surgical rooms.

Products

The Fluid Management System ("FMS")

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

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

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

Key Feature Comparison

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

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

For on-the-wall installation in a current operating room, the location of the FMS may be chosen based on proximity to the existing hospital drain and suction systems. Installation will require access to those systems through the wall and connection to the systems in a manner similar to that for within-the-wall installation. The FMS system is mounted on the wall using a mounting bracket supplied with the system and standard stud or drywall attachments.Labor is estimated based on conclusions made on information gathered from third parties at an average of 6 hours but will vary depending on the actual drain and suction systems already resident in the hospital.

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

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

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

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

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

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

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

A summary of the features of the wall unit include:

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

- Minimizes Exposure . The FMS minimizes surgical team and cleaning crew exposure to bloodborne pathogens, as the system is hands-free and fully automated with electronic controls with regards to handling any waste fluid. The FMS provides advanced fluid management technology in that it eliminates the use of canisters, traditional or powered, for fluid collection, is directly connected to the hospital sanitary sewer, provides continuous flow of waste fluids from the operative field, allows visualization of those fluids prior to disposal and provides measurement of disposed fluids. It does not require any transport to and from the operating room or any secondary procedure such as attachment to a companion device for disposal of the waste fluids

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

- Disposable Cleaning Kit. A single-use, disposable cleaning kit that is used for the automated cleaning cycle at the conclusion of each procedure prepares the FMS for the next use, reducing operating room turnover time. The cleaning kit includes a BioDrain proprietary cleaning fluid for cleaning the internal tubing, pathways and chamber within the FMS unit and a disposable external manifold required for each surgical procedure. The cleaning solution bottle is attached to the FMS with a cleaning fluid adapter which is designed to mate with the special connector on the FMS. One manifold will be supplied with each bottle of cleaning fluid, attached to the bottle for user convenience in securing all consumables needed for each use of the FMS. The disposable cleaning fluid bottle collapses at the end of the cleaning cycle rendering it unusable; therefore it cannot be refilled with any other solution. The instructions for use clearly state that the FMS cleaning fluid, and only the FMS cleaning fluid, must be used with the FMS following each surgical case. The cleaning fluid should be a substantial revenue generator for the life of the FMS.

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

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

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

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

Patents and Intellectual Properties

We were granted a European patent on April 4, 2007 (Patent No. EP1539580) and a U.S. patent on December 30, 2008 (U.S. Patent No. 7,469,727) (collectively, the “Patents”). We also have a divisional application pending before the U.S. Patent Office. A feature claimed in the Patents is the ability to continue suctioning waste fluids into a collection chamber, to measure the fluid collected, and to pump that collected fluid from the collection chamber all while negative pressure is being maintained. This provides for continuous operation of the FMS unit in suctioning waste fluids, which means that the unit never has to be shut off or paused during a surgical operation, for example, to empty a fluid collection container or otherwise dispose of the collected fluid. We believe that this continuous operation feature provides us with a significant competitive advantage, particularly on large fluid generating procedures. All competing products have a limited fluid collection capacity necessitating that the device be emptied when capacity is reached during the surgical procedure.

We recently completed and executed an agreement with Marshall C. Ryan, the named inventor of the Patents, to secure exclusive ownership of the Patents. In exchange for the transfer of his ownership interests in the Patents, we paid Mr. Ryan a combination of cash and warrants, agreed to pay him 4% royalty on FMS sales for the life of the Patents and agreed to make additional payments if there is a change in control of the Company (defined in the agreement as either 50% or more of the Company’s outstanding stock or substantially all of its assets being transferred to one independent person or entity). At the signing of the agreement, we paid Mr. Ryan $75,000 and agreed to pay a corporation wholly owned by Mr. Ryan, Mid-State Stainless, Inc., an additional $100,000 payment on June 30, 2009 for past research and development activities. We also granted Mr. Ryan a warrant to purchase 150,000 shares of our common stock at a price of $.35 per share. The warrant has a term of five years, ending on June 30, 2013. Should there be a change in control of the Company, we will pay Mr. Ryan a total of $2 million to be paid out over the life of the U.S. patent if the change in control occurs within 12 months of the first sale of any products, or $1 million to be paid out over the life of the U.S. patent if the change in control occurs between 12 and 24 months of the first sale of any products, or $500,000 to be paid out over the life of the U.S. patent if the change in control occurs between 24 and 36 months of the first sale of any product.

Our competitive advantage, if any, based upon the Patents, would be lost if these Patents were found to be invalid in the jurisdictions in which we sell or plan to sell our products. No assurance can be given that any measure we implement will be sufficient to protect our intellectual property rights or that we could afford to take such measures. If we cannot protect our rights, we may lose our competitive advantage. There is no assurance that any of these protections can be maintained or that they will afford us a meaningful competitive advantage. Moreover, if it is determined that our products infringe on the intellectual property rights of third parties, we may be prevented from marketing our products.

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

We engaged the services of Marshall C. Ryan to further develop the medical waste fluid collection system for commercialization. Mr. Ryan conceived of an alternative embodiment for the medical waste fluid collection system (the "Ryan Embodiment"). In the Ryan Embodiment, a pump was utilized to measure and discharge the collected fluid while negative pressure was maintained in the separation and collection chambers. An international (PCT) application was timely filed disclosing both the Nord/Drogue Embodiment and the Ryan Embodiment. National stage applications were subsequently timely filed in the U.S., Europe and Canada based on the PCT application. During prosecution of the U.S. and European national stage applications, the claims directed to the Nord/Drogue Embodiment were rejected as being unpatentable of the prior art. Accordingly, the claims directed to the Nord/Drogue Embodiment were canceled and the remaining claims were amended to specifically claim only the Ryan Embodiment. It was learned during prosecution of the U.S. and European applications that Mr. Ryan was inadvertently omitted as a named inventor. Appropriate documents were then filed with the European and U.S. patent offices to add Mr. Ryan as a named inventor. Additionally, pursuant to U.S. patent law, because the claims directed to the Nord/Drogue Embodiment were canceled, leaving only the Ryan Embodiment claimed, appropriate documents were filed to remove Nord and Drogue as named inventors. The U.S. patent and the European patent were allowed after the claims were amended to relate solely to the Ryan Embodiment. The Canadian patent office has not yet examined the Canadian national stage application (which will be amended consistent with the U.S. and European patents to claim only the Ryan Embodiment).

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

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

The Company's system based on our patents includes a cleaning kit that contains a pre-measured amount of a cleaning solution for cleaning the suction unit before a subsequent use. We are currently working on finalizing an exclusive distribution agreement with a manufacturer of the fluid we will use in the cleaning kit to be utilized with our FMS. While we expect that any agreement with a manufacturer of the fluid will allow use of the fluid in connection with our devices, we do not expect to acquire ownership of any patent rights or claims pertaining to such fluid.

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

The Disposable Cleaning Kit

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

The BioDrain proprietary cleaning fluid is a critical component of our business model. The cleaning fluid has the "razor blade business model" characteristic with an ongoing stream of revenue for every FMS unit installed, and revenues from the sale of fluids are expected to be significantly higher than the revenues from the unit. We will have exclusive distribution rights to the fluid and facilitate the use of only our fluid for cleaning following procedures by incorporating a special adapter to connect the fluid to the special connector on the FMS system. We will also tie the fluid usage, which we will keep track of with the FMS software, to the product warranty. While it could be possible for other manufacturers to provide fluids for utilization in this process, it would require that they manufacture an adapter compatible with our connector on the FMS, obtain a container that fit in the specially designed container holder on the FMS and perform testing to demonstrate that any other fluid would not damage the FMS. We believe that these barriers and the warranty control will allow us to achieve substantial revenue from our cleaning fluid. The instructions for use which accompanies the product will clearly state how the fluid is to be hooked up to the FMS machine. Further, a diagram on the FMS will also assist the user in attaching the fluid bottle to the machine. This will be a very simple task, and we do not anticipate that any training of operating room staff will be necessary.

All installations of our FMS product will be completed by a service and maintenance organization that is familiar with completing such installations in health care settings. We have had conversations with more than one of this type of company and we are now in the process of selecting the best company(s) to partner with regarding this function. The general availability of these types of service and maintenance personnel in the health care sector should not hinder us from forming a beneficial relationship in this area.

Corporate Strategy

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

Our strategy will be to:

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

- *Provide products that greatly reduce worker and patient exposure to harmful materials present in infectious fluids and that contribute to an adverse working environment.* As one of the only stand-alone surgical fluid disposal systems directly connected to the sanitary sewer, the FMS could advance the manner in which such material is collected, measured and disposed of in operating rooms, post-operating recovery, emergency rooms and intensive care settings by eliminating the need to transport a device to the patient bedside and remove it for emptying and cleaning at the end of the procedure. The cost of such exposures, measured in terms of human suffering, disease management costs, lost productivity, liability or litigation, will be, when properly leveraged, the strongest motivating factor for facilities looking at investing in the FMS line of products..

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

- *Continue to utilize operating room consultants, builders and architects as referrals to hospitals and day surgery centers.* To date, referrals have been received from this group resulting in several potential sales and a potential beta site. These referrals have shortened the time frame for contacting and demonstrating the FMS to potential customers as well as providing us with valuable responses to the FMS from the customer base, the vast majority of which have been extremely positive to date.

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

Other strategies may include:

- Employing a lean operating structure, while utilizing the latest trends and technologies in manufacturing and marketing, to achieve both market share growth and projected profitability.

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

- Providing service contracts to establish an additional revenue stream.

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

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

Technology and Competition

Fluid Management for Surgical Procedures

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

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

- *Direct Disposal Through the Sanitary Sewer.* In virtually all municipalities, the disposal of liquid blood may be done directly to the sanitary sewer where it is treated by the local waste management facility. This practice is approved and recommended by the EPA. In most cases these municipalities specifically request that disposed bio-materials not be treated with any known anti-bacterial agents such as glutalderhyde, as these agents not only neutralize potentially infectious agents but also work to defeat the bacterial agents employed by the waste treatment facilities themselves. Disposal through this method is fraught with potential exposure to the service workers, putting them at risk for direct contact with these potentially infectious agents through spillage of the contents or via splash when the liquid is poured into a hopper - a specially designated sink for the disposal of infectious fluids. Once the infectious fluids are disposed of into the hopper, the empty canister is sent to central processing for re-sterilization (glass and certain plastics) or for disposal in the biohazardous/infectious waste generated by the hospital (red-bagged).

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

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

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

    - Disposal costs to the hospital increase dramatically as shipping, handling and landfill costs are based upon weight rather than volume in most municipalities. The weight of an empty 2,500 ml canister is approximately one pound. A canister and its gelled contents weigh approximately 7.5 pounds.

    - The canister filled with gelled fluid must be disposed; it cannot be cleaned and re-sterilized for future use.

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

Drainage Systems

Several new medical devices have been developed which address some of the deficiencies described above. MD Technologies, Inc., DeRoyal (formerly Waterstone), Dornoch Medical Systems, Inc. and Stryker Instruments have all developed systems that provide for disposal into the sanitary sewer without pouring the infectious fluids directly through a hopper disposal or using expensive gel powders and all of these newer products are currently sold with 510(K) concurrence from the FDA. Cardinal Health, Inc. has received 510(K) concurrence to market a similar device that they have begun advertising. Most of them incorporate an internal collection canister with finite capacity, and while not directly eliminating the need to transport a device to and from the surgical room, most have been successful in eliminating the need for expensive gel and its associated handling and disposal costs.

Our existing competitors that already have products on the market have a clear competitive advantage over us in terms of brand recognition and market exposure. In addition, the aforementioned companies have extensive marketing and development budgets that could overpower an early-stage company like ours. Information the Company obtained from surgical clinicians during interviews indicate that Stryker Instruments has the dominant market share position. Cardinal Health, Inc., though having FDA concurrence, is only now beginning to advertise their product. These clinicians have also indicated that the competitive devices are used in select procedures and often in some, but not all, surgical

Current Competition, Technology, and Costs

Single Use Canisters

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

Our FMS would replace the use of canisters and render them unnecessary, as storage and disposal would be performed automatically by the FMS. It should be noted that these canisters are manufactured by companies with substantially more resources that BioDrain. Cardinal Health, a very significant competitor, manufacturers both single use canisters as well as a more automated fluid handling system that will compete with us. Accordingly, faced with this significant competition, we may have difficulty penetrating this market.

Solidifying Gel Powder

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

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

Sterilization and Landfill Disposal

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

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

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

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

Handling Costs

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

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

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

Nursing Labor

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

Our FMS products would save nursing time as compared to the manual process of collecting and disposing of surgical waste. Set-up is as easy as attaching the suction tube to the inflow port of the FMS. Post-operative clean-up requires approximately five minutes, the time required to dispose of the suction tubing to the red-bag, calculate the patient’s blood loss, attach the bottle of cleaning solution to the inlet port of the unit, initiate the cleaning cycle, and dispose of the emptied cleaning solution. The steps that our product avoids, which are typically involved with the manual disposal process include, canister setup, interpretation of an analog read out for calculating fluid, canister management during the case (i.e. swapping out full canisters) and then temporarily storing, transferring, dumping and properly disposing of the canisters.

Competitive Products

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

We differentiate from these competitors since we have the most automatic, hands-free process of any of the systems currently on the market. Each of our competitors, with the exception of MD Technologies, Inc., has some significant manual handling involved in the process. It may require the need to transport the mobile unit to a docking port and then empty the fluid or it may be that the canister is still manually transported to a more efficient dumping station. Regardless, most of our competitors require more human interaction with the fluid than BioDrain. Please refer to the chart on page 39 for a comparison of the key features of the devices currently marketed vs. the FMS.

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

Marketing and Sales

Distribution

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

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

Governmental and professional organizations have become increasingly aggressive in attempting to minimize the risk of exposure by medical personnel. to bloodborne pathogens It is believed that our technology provides a convenient and cost effective way to collect and dispose of this highly contaminated material.

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

We will structure our pricing and relationships with distributors and/or service companies to ensure that these entities receive at least a typical industry level compensation for their activities. The cost and price estimates currently in place with the Company conservatively allow for reasonable profit margins for all entities in the FMS and the cleaning fluid supply chain. While we have had discussions with related companies, there are no installation or service companies contracted or trained to install our fluid management system at this time.

Promotion

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

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

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

Pricing

Prices for the FMS and its disposable cleaning kit will reflect a cost saving to the hospital compared to its current procedure costs over time. This pricing strategy should ensure that the customer will realize actual cost savings when using the FMS and replacing traditional canisters, considering the actual costs of the canisters and associated costs such as biohazard processing labor and added costs of biohazard waste disposal. Suction tubing that is currently used in the operating room will continue to be used with our system and should not be considered in the return on investment equation. An argument could be made that our system produces waste through the disposable cleaning solution bottle. However, our cleaning solution's bottle is completely recyclable, and the anticipated selling price of the fluid is built into our cost analysis. In comparison, an operation using traditional disposal methods will often produce multiple canisters destined for biohazard processing. Biohazard disposal costs are estimated by Outpatient Surgery Magazine to be 5 times more per pound to dispose of than regular waste (Outpatient Surgery Magazine, April 2007, p.44). Once the canister has touched blood, it is considered "red bag" biohazard waste, whereas the cleaning fluid bottle used in our system can be recycled with the rest of the facility's plastics or, less desirably, they can be thrown in the regular trash.

The FMS will list for approximately $12,000 - $15,000 per system (one per operating room - installation extra) and $15 - $20 per unit retail for the proprietary cleaning kit to the U.S. hospital market. By comparison, the disposal system of Stryker Instruments, one of our competitors, retails for $10,000 plus a $9,000 docking station and requires a disposable component with an approximate cost of $15 and a proprietary cleaning fluid (cost unknown per procedure). Per procedure cost of the traditional disposal process includes approximate costs of $2 per liter canister, plus solidifier at $2 per liter canister, plus the biohazard premium disposal cost approximated at $1.80 per liter canister. In addition, the labor, gloves, gowns, goggles, and other related material handling costs are also included in the current disposal expenses.

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

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

Engineering and Manufacturing

We have are currently in negotiations to finalize our relationship with TriVirix, Inc. for the engineering and manufacturing of our product, FMS, which refers to the FMS device itself and not the cleaning fluid, cleaning fluid packaging, external manifold or any other accessories. TriVirix, Inc. is ISO 13485:2003 and GMP-certified and has the necessary expertise and experience to build our product in a cost-effective manner. We are in negotiations , but have not yet executed Manufacturing Supply Agreement with TriVirix

Upon execution, we believe that the Manufacturing Supply Agreement will specify the quantities for production of our product, which we anticipate will be based on a 6-month rolling forecast, the allocation of production and the price and price increase terms. Under the terms of the expected Manufacturing Supply Agreement, TriVirix, Inc. would manufacture only our FMS device. Upon execution of the Manufacturing Supply Agreement, Trivirix, Inc. would be considered a primary supplier of the FMS device. Our management, as part of a broader manufacturing sourcing strategy plans to identify at most two second sources of production for the FMS device.

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

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

Government Regulation

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

These agencies include:

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

Application for Electrical Safety Testing and Certification

We are seeking testing and certification to the IEC 60606-1 and IEC 60606-1-2, two internationally recognized standards. In the United States there are three Nationally Recognized Testing Laboratories ("NRTLs"), Underwriters Laboratories ("UL"), TUV SUD America, Inc. and Intertek-Semko (ETL), that can perform such tests for electrical safety of our FMS device. We issued request for quotes to two of three of these NRTLs in addition to issuing initial inquiries to certified third party testing entities conducting testing on behalf of the NRTLs. Based on responses to our request for quotes noting pricing and timing of conducting the testing, we have contracted with TUV SUD America, Inc. located in New Brighton, MN for this electrical safety testing. We delivered one FMS device to TUV SUD America, Inc. on December 18, 2008 to commence testing. Expected completion of the testing and associated final documentation of the testing results is scheduled for January 31, 2009.

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

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

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

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

After we secure electrical safety testing approval for the FMS, we plan to file a 510(K) submission for FDA approval of the FMS. The FDA requires, pursuant to a final regulation for Establishment Registration and Device Listing for Manufacturers of Devices, that a 510(k) premarket notification be submitted at least ninety days before marketing a device that: (1) is being introduced into distribution for the first time by that person or entity, or (2) is in distribution but is being significantly modified in design or use. A 510(k) submission must contain, among other things (i) proposed labeling sufficient to describe the device's intended use; (ii) a description of how the device is similar to or different from other devices of comparable type, or information about what consequences a proposed device modification may have on the device's safety and effectiveness; and (iii) any other information necessary to determine whether the device is substantially equivalent (as defined below). We anticipate that this will be a Class II device, which is less stringently reviewed as that of a Class III device. We have teamed with regulatory consultants with significant experience in the FDA approval process. While each submission and approval is different, our regulatory consultants have advised that this is a fairly standard type of FDA 510(K) submission, with a high probability of approval by the FDA.

The 510(k) Submittal Process

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

1. Our contracted FDA consultant will compile the following documents:
    a. Electrical safety testing report and conclusions from TUV SUD America, Inc.,
    b. Risk and hazard analysis documentation,
    c. BioDrain FMS product labeling such as the instructions for use, preventative, maintenance schedules, troubleshooting guidelines,
    d. Documentation regarding the proprietary cleaning fluid and the labeling and instructions for use related to the use of the proprietary cleaning fluid,
    e. Software and hardware design inputs and outputs including requirements related specifications and documents, and

f. Other documentation the FDA deems necessary.

2. Upon compiling these documents, a 510(k) Submittal Document will be drafted in the format instructed by the FDA. This entire package, upon completion by the BioDrain FDA consultant and approval by BioDrain management, will be submitted to a contracted third party 510(k) reviewer, Mark Job of Regulatory Technical Services.
3. Mr. Job will review the BioDrain submittal and a question and answer iteration will take place between us and Regulatory Technical Services until he is satisfied with the BioDrain submittal. Once satisfied, Mr. Job will submit the BioDrain 510(k) Submittal Document and all necessary, related documentation directly to the FDA.
4. The FDA has thirty days to review and respond to the BioDrain 510(k) Submittal. Similarly, a question and answer iteration may take place between the FDA and Mr. Job or Regulatory Technical Services regarding the submittal. BioDrain, at the request and as needed by Mr. Jobor Regulatory Technical Services, will take all necessary steps and actions to provide the answers to any and all FDA inquires specific to the 510(k) submittal.
5. Upon successfully addressing the FDA's questions, BioDrain can expect to receive FDA 510(k) clearance for the FMS device.

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

FDA Process for Clearing a Device Under Section 510(k)

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

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

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

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

Foreign Jurisdictions

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

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

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

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

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

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

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

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

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

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

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

Investors

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

Investors

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

Founders

Name	Number of Shares	Percentage of Common Stock Outstanding
Lawrence W. Gadbaw	139,163	1.7%
Peter L. Morawetz	107,739	1.3%
Gerald D. Rice	85,294	1.0%
Jay D. Nord	102,336	1.3%
Sophia M. Nord, Trust	29,928	0.4%
Emily A. Nord, Trust	29,928	0.4%
Jeffrey K. Drogue	53,870	0.7%
Jonathon N. Drogue, Trust	29,928	0.4%
Samantha N. Drogue, Trust	29,928	0.4%
Staci M. Lauer (Spade)	35,913	0.4%
Wisconsin Rural Enterprise	37,709	0.5%
Richard E. & Carol A. Thurk	5,986	0.1%
Thomas W. Gadbaw	599	0.0%
Gail C. & Ginger L. Smith	2,993	0.0%
Charles W. Gadbaw	300	0.0%
Judith A. Bright	1,497	0.0%
Marshall C. Ryan	71,906	0.9%
Alice I. North	399	0.0%
Arliss A. Gadbaw	400	0.0%
Gaynelle A. Templin	399	0.0%
Kevin R. Davidson	29,928	0.4%
Mark K. Lawlis	9,577	0.1%
Wisconsin Business Innovation Corporation	2,993	0.0%
Andcor Companies, Inc.	78,571	1.0%%
Wisconsin Rural Enterprise Fund	142,291	1.7%
Total	1,029,575	12.7%%

Employees

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

Legal Proceedings

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

Description of Property

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

Directors, Executive Officers, Promoters and Control Persons

The following table identifies our current executive officers and directors.

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

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

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

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

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

Business Experience

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

Kevin R. Davidson, President, Chief Executive Officer and Interim Chief Financial Officer. Mr. Davidson has served as our President and Chief Executive Officer since 2006 and Interim Chief Financial Officer since January 2009,,and has several years of experience in the medical technology sector. He has been the Chief Financial Officer of three medical technology companies including his most recent position beginning in 2003 as Chief Financial Officer, Vice President of Business Development at OrthoRehab, Inc., where he lead the successful sale of the organization to Otto Bock GmbH. In addition to his Chief Financial Officer experience, Mr. Davidson was an investment banker in the medical technology sector as a Managing Director with the Arthur Andersen Global Corporate Finance Group from 1998 to 2002, where he led and closed several transactions in this sector. Mr. Davidson also has experience in the corporate development function in the medical area, including holding positions at St. Jude Medical, Inc. from 1989 to 1992. In addition, he has extensive domestic and international experience as a management consultant in this area. Mr. Davidson received a BA in Economics from Gustavus Adolphus College in 1982 and an MBA from The Colgate Darden Graduate School of Business Administration at the University of Virginia in 1986.

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

Kirsten Doerfert, Vice President of Sales and Marketing. Ms. Doerfert joined BioDrain Medical as our Vice President of Sales and Marketing in 2009. She has over 25 years experience in worldwide medical device sales and marketing leadership, primarily focused in major surgical markets. From 2007 to 2008 and from 1999 to 2004, Ms. Doerfert served as a senior executive at Urologix, Inc., a public company serving the urology market, in the positions of Senior Vice President and General Manager, Vice President Business Development and Strategic Planning, and Vice President Global Marketing. From 2005 to 2007, Ms. Doerfert served as the Vice President Marketing for Gyrus ACMI Surgical Division of Gyrus Group PLC (now wholly owned by Olympus), a medical device company manufacturing and marketing visualization and tissue management systems, instruments and services for the minimally invasive surgery market. From 1991 to 1999, Ms. Doerfert held sales and marketing positions of increasing responsibility at Circon Corporation (now wholly owned by Olympus) also serving the minimally invasive surgery markets. She was employed by Corometrics Medical Systems (now a division of GE Medical) from 1983 to 1999 in sales, marketing and clinical positions. Ms. Doerfert has a strong clinical background with 8 years in clinical practice as a registered nurse. She received a nursing degree from Clemson University, Clemson, SC and a Bachelor of Science degree in nursing from Georgia State University, Atlanta, GA.

Gerald D. Rice, Director. Mr. Rice has over thirty years of executive financial experience and served as our Chief Financial Officer and Secretary from our inception in 2002 until January 15, 2009. From 1999 to 2002, he provided financial consulting at a private practice and he served as Controller of Medical Graphics Corporation from 1998 to 1999. From 1995 to 1998, Mr. Rice served as Chief Financial Officer of Road Rescue and prior to that, from 1979 to 1995, he held various positions as Chief Financial Officer or financial consultant at several companies. Mr. Rice spent ten years from 1969 to 1979 as a manufacturing consultant for the public accounting firms of Arthur Andersen & Co. and RSM McGladrey. During that time, he worked with a diverse array of clients, including MTS, Arctic Cat, TESCOM and Lester's, designing and installing manufacturing information systems. Mr. Rice is a Certified Public Accountant and holds several other certifications in various fields. He received his business degree from the University of Minnesota in 1967 and his Masters of Business Administration from the University of Minnesota in 1988.

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

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

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

Medical Advisory Board

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

Dr. Arnold S. Leonard, MD, PhD. Dr. Leonardis a surgeon who specialized in orthopedic anterior spine approaches and pediatric surgery from 1956 to 2006. Dr. Leanord served at the University of Minnesota (UM) 1956-2004 where he was a Professor of Surgery and Chair in Pediatric Surgery, maintains membership in 13 medical societies, is a recipient of many special honors and awards including The Wangensteen Distinguished Professor Award for Excellence in Teaching, is a member of several hospital and national medical committees, and a lecturer and author of over 250 abstracts, publications and presentations. He has also performed several research projects in the treatment of cancer using genetic engineering to boost the immune system. The Arnold S. Leonard, M.D., Ph.D. Chair in Pediatric Surgery was awarded to Dr. Leonard by the University of Minnesota as an endowed scholar alongside two other distinguished Minnesota physicians

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

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

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

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

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

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

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

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

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

Executive Compensation

Summary of Compensation

The following table summarizes all compensation for the fiscal years ended December 31, 2007 and 2008 paid to our President and Chief Executive Officer and our Former Chief Financial Officer and Secretary. No other executive officer received total compensation exceeding $100,000 during the fiscal year ended 2008.

Summary Compensation Table

Name and principal position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($) (4)	Non-Equity Incentive Plan Compen-sation ($)	Nonquali-fied Deferred Compen-sation Earnings ($)	All Other Compen-sation ($)	Total ($)
Kevin R. Davidson,	2008	160,000			185,806				345,806
President and Chief	2007	150,000	23,000						173,000(1)
Executive Officer									
Gerald D. Rice,	2008	114,000							114,000
Former Chief	2007	110,000	46,000						156,000(2)
Financial Officer and Secretary (3)									

(1) In 2008 Mr. Davidson was entitled to $160,000 in base salary under his employment agreement and a board approved salary increase, but was paid only $126,650 due to a shortage of cash. In 2007, although Mr. Davidson was entitled to $150,000 in base salary under his employment agreement, he received $59,375 in base salary due to lack of funds. In December 2007, upon request from our funding brokers, we reduced accrued payroll liabilities by a total of $346,714 through November 2007 (of which Mr. Davidson had waived compensation in the aggregate amount of $70,000). In exchange therefor, Mr. Davidson will be granted a one-time cash bonus of $23,000 as well as an option to purchase 80,000 shares of common stock at $.35 per share when the Company raises an additional $3 million of funding subsequent to the financing completed in October 2008..

(2) In 2008 Mr. Rice was entitled to 114,250 in base salary under his employment agreement and board approved salary increase, but was paid only $73,525 due to a shortage of cash. In 2007, although Mr. Rice was entitled to $110,000 in base salary under his employment agreement, he received $43,542 in base salary due to lack of funds. In December 2007, upon request from our funding brokers, we reduced accrued payroll liabilities by $346,714 through November 2007 (of which Mr. Rice had waived compensation in the aggregate amount of $125,000). In exchange therefore, Mr. Rice will be granted a one-time cash bonus of $46,000 as well as an option to purchase 160,000 shares of common stock at $.35 per share when we raise an additional $3 million of funding subsequent to the financing completed in October 2008.

(3) Mr. Rice terminated his employment as our Chief Financial Officer and Secretary on January 15, 2009

(4) Values expressed represent the actual compensation cost recognized by our company during 2008 for equity awards granted in 2008 and previous years as determined pursuant to Statement of Financial Accounting Standards No. 123, Share-Based Payment ("SFAS 123R") utilizing the assumptions discussed in Note 3, "Stock Options and Warrants," in the notes to financial statements included as Exhibit F-8 to this filing on Form S-1.

Outstanding Equity Awards at Fiscal Year-End

The table below provides information concerning unexercised options for our President and Chief Executive Officer and our Former Chief Financial Officer and Secretary outstanding as of December 31, 2008. To date, there have been no stock issuances from these option grants.

Outstanding Equity Awards at Fiscal Year-End Table

	Option awards					Stock awards			
Name	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Equity incentive plan awards: Number of securities underlying unexercised unearned options (#)	Option exercise price ($)	Option expiration date	Number of shares or units of stock that have not vested (#)	Market value of shares of units of stock that have not vested ($)	Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested (#)	Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Kevin R. Davidson, President and Chief Executive Officer	-	80,000(1)	-	$ .35	12/31/13	-	-	-	-
	543,292(2)			.01	06/05/18				
Gerald D. Rice, Chief Financial Officer and Secretary	-	160,000(1)	-	$ .35	12/31/13	-	-	-	-

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

(2) Mr. Davidson was entitled to receive 543,292 shares of company stock under terms of his employment agreement, but agreed to accept a stock option to purchase 543,292 shares at $.01 per share. The option vested immediately and has a 10 year term.

Discussion of Compensation

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

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

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

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

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

In 2007, Mr. Davidson was paid $59,375 in base salary, which is less than he earned under his employment agreement, due to lack of funds by the Company. In December 2007, upon request from our funding brokers, we reduced accrued payroll liabilities by a total of $346,714 through November 2007 (of which Mr. Davidson had waived compensation in the aggregate amount of $70,000). In exchange therefore, Mr. Davidson will be granted a one-time cash bonus of $23,000 as well as an option to purchase 80,000 shares of common stock at $.35 per share when we raise an additional $3 million of funding subsequent to the financing completed in October 2008. Mr. Davidson is also eligible for stock, stock options, deferred compensation, and life insurance, as approved by our board of directors or compensation committee when established, and reimbursements for all reasonable, deductible and substantiated expenses, including, but not limited to, automobile mileage, telephone, cell phone, and expenses related to home office and business meetings. Mr. Davidson is entitled to a minimum of three weeks' vacation per year. In connection with the agreement, Mr. Davidson was granted a position on our board of directors with the option of submitting for board approval one nominee for Board membership.

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

In 2007, Mr. Rice was paid $43,542 in base salary, which is less than was earned under his employment agreement, due to a lack of funds by the Company. In December 2007, upon request from our funding brokers, we reduced accrued payroll liabilities by $346,714 through November 2007 (of which Mr. Rice had waived compensation in the aggregate amount of $125,000). In exchange therefore, Mr. Rice will be granted a one-time cash bonus of $46,000 as well as an option to purchase 160,000 shares of common stock at $.35 per share when we raise an additional $3 million of funding subsequent to the financing completed in October 2008.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Compensation of Directors

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

Corporate Governance

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

Compliance with Section 16(a) of the Exchange Act

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

Code of Ethics

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

Certain Relationships and Related Transactions

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

In September 2002, an oral agreement was made with director Peter Morawetz whereby he would provide sales, marketing and general administrative support to BioDrain for a fee of $1,770 per month. The Company's expectation at the time was that the Company would have received equity financing to fund these payments but the Company did not receive that funding and Mr. Morawetz did not receive these amounts. The fees were accrued through August 2006 and totaled approximately $85,000 but no amount has been paid. No formal agreement has been reached as to the amount and timing of these payments.

In 2007, three of our current and former directors/executive officers, Lawrence Gadbaw, Gerald Rice and Kevin Davidson, and a former employee that left the Company in April 2006, agreed to waive an aggregate of approximately $346,700 in accrued, unpaid salaries for their services through June 2007 and Mr. Morawetz agreed to defer his consulting fees of $84,963 (please see description below). In December 2007, upon request from our funding brokers, we reduced accrued payroll liabilities by $346,714 through November 2007. This total was waived compensation from Mr. Davidson in the amount of $70,000, waived compensation from Mr. Rice in the amount of $125,000, waived compensation from Mr. Gadbaw in the amount of $138,541 and waived compensation from an employee who left the Company in April 2006 in the amount of $13,369. In exchange therefore, Mr. Gadbaw and Mr. Rice will be each granted an option to purchase 160,000 shares of common stock and Mr. Davidson will be granted an option to purchase 80,000 shares of common stock, all at $.35 per share upon the Company raising an additional $3 million in financing subsequent to the October 2008 financing. In addition, Mr. Rice is entitled to receive a one-time cash bonus of $46,000 and Mr. Davidson is entitled to receive a one-time cash bonus of $23,000 when the Company raises an additional $3 million subsequent to the October 2008 financing. Mr. Gadbaw is currently receiving $2,000 per month until a total of $46,000 of accrued salary liability is paid.

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

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

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

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

Selling Security Holders

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

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

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

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

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

- Shares underlying convertible debenture with certain investors who loaned us $170,000 in July 2007. Such securities are convertible into 620,095shares and the lenders were also entitled to receive a warrant to purchase 620,095 shares at $.42 per share;

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

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

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

Name of Selling Shareholder	Number of Shares Owned Before Offering(1)	Number of Shares Underlying Warrants Owned Before Offering	Number of Shares Offered in this Offering(1)	Number of Shares Owned After Offering(2)	Percentage Owned After Offering(2)
Caron Partners LP(3) (25)	246,500	100,000	246,500	0	0
Alan Topchik (25)	200,000	100,000	200,000	0	0
Marc I. Abrams (25)	57,142	28,571	57,142	0	0
Douglas J. Gold (21) (25) (27)	232,142	28,571	232,142	0	0
Stuart A. Liner (25)	142,858	71,429	142,858	0	0
Steven M. Gold and Sheila A. Gold (25)	142,858	71,429	142,858	0	0
Tangiers Investors, L.P.(4) (25)	285,714	142,857	285,714	0	0
Jerome M. Cowan (25)	142,858	71,429	142,858	0	0
Jeremy Roll (25) (26)	68,573	40,001	68,573	0	0
Bernard Vosika and Twyla Vosika (25)	142,858	71,429	142,858	0	0
Sally Maslon & Naomi Maslon JTWROS (25)	57,142	28,571	57,142	0	0
Michael Sobeck (25)	28,572	14,286	28,572	0	0
Cavalier Consulting Corp.(5) (25)	142,858	71,429	142,858	0	0
RP Capital(6) (21) (25)	326,848	142,857	326,848	0	0
Brian Weitman (25)	64,028	21,429	64,028	0	0
Bellajule Partners LP(7) (25)	173,858	71,429	173,858	0	0
Morris Esquenazi (25)	200,000	100,000	200,000	0	0
Schwartz Holding (25)	1,000,000	500,000	1,000,000	0	0
Jack Farbman and Thelma Farbman (25)	200,000	100,000	200,000	0	0
Morrie R. Rubin (25)	100,000	50,000	100,000	0	0
Lee M. Terpstra and Orlando Stephenson (25)	200,000	100,000	200,000	0	0
Bernard Puder Revocable Trust (25)	860,000	430,000	860,000	0	0
Thomas J. Klas (25)	142,858	71,429	142,858	0	0
Chad A. Ruwe(22) (25)	1,192,858	571,429	1,142,858	50,000(8)	*
Peter Abramowicz (25)	114,286	57,143	114,286	0	0
Scott R. Storick (25)	200,000	100,000	200,000	0	0
James R. Taylor, IV(25)	1,142,858	571,429	1,142,858	0	0
Citigroup Global Markets Inc. as IRA Custodian FBO John D. Villas (25)	142,858	71,429	142,858	0	0
Gregory B. Graves (25)	85,714	42,857	85,714	0	0
James E. Dauwalter Living Trust dated 12/11/01(9) (25)	1,142,858	571,429	1,142,858	0	0
Stan Geyer Living Trust dated 10/15/2001, as amended, Stan Geyer & Beverly Geyer, Trustees(10) (25)	142,858	71,429	142,858	0	0
Fenton Fitzpatrick (25)	17,142	8,571	17,142	0	0
Peter Persad (25)	142,858	71,429	142,858	0	0
Nimish Patel(11) (21) (24)	503,601	45,595	503,601	0	0
Erick Richardson(12) (21) (24)	490,733	45,595	490,733	0	0
Core Fund Management, LP(13) (24)	364,762	182,381	364,762	0	0
James Jensen(14) (24)	364,762	182,381	364,762	0	0
Steve Andress(15) (24)	72,952	36,476	72,952	0	0
Kendall Morrison(16) (24)	72,952	36,476	72,952	0	0
Egavnit LLC(17) (24)	196,092	91,191	196,092	0	0
Thomas Pronesti(23) (26)	55,964		55,964	0	0
Craig Kulman(23) (26)	38,821		38,821	0	0
Kulman IR LLC(18)(23) (26)	125,000		125,000	0	0
Cross Street Partners, Inc.(19)(23) (26)	125,000		125,000	0	0
Bill Glaser(23) (26)	250,000	125,000	250,000	0	0
Ryan Hong(21) (27)	57,404		57,404	0	0
Richardson & Patel, LLP(20) (27)	60,714		60,714	0	0
Sean Fitzpatrick (27)	150,000		150,000	0	0
David Baker (27)	225,000		225,000	0	0
Si Phillips (27)	50,000		50,000	0	0
Cameron Broumand (27)	35,000		35,000	0	0
Sylvia Karayan(21) (27)	10,000		10,000	0	0
Jason Cavalier (27)	15,000		15,000	0	0
Greg Suess (27)	104,114		104,114	0	0
Ben Padnos (27)	100,000		100,000	0	0
Mark Abdou (27)	32,907		32,907	0	0
Addison Adams(21) (27)	8,227		8,227	0	0
Michael Cavalier (27)	8,227		8,227	0	0
Mick Cavalier (27)	8,227		8,227	0	0
Francis Chen(21) (27)	2,334		2,334	0	0
Doug Croxall (27)	6,170		6,170	0	0
Jennifer & Michael Donahue(21) (27)	28,009		28,009	0	0
Dan Estrin (27)	823		823	0	0
Kevin Friedmann(21) (27)	1,440		1,440	0	0
Sylvia Karayan(21) (27)	1,646		1,646	0	0

Abdul Ladha (27)	4,114		4,114	0	0
Jody Samuels(21) (27)	8,227		8,227	0	0
Yossi Stern (27)	10,284		10,284	0	0
Steve Yakubov	10,284		10,284	0	0
TOTAL	13,030,747	5,309,386	13,030,747	0	*

* Less than 1% based on a total of 8,130,841 shares of common stock outstanding on November 1, 2008

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(24) Each person that participated in lending $170,000 to the Company under a convertible note has a right to convert their note into common shares at $.35 per share and also received a warrant to purchase an equal number of shares at $.46 per shares. In the aggregate the note holders have rights to convert their debt into 620,095 shares and also hold warrants to purchase 620,095 shares.

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

(26) Participated in the acquisition of 547,285 common shares and 136,429 warrants by certain consultants who provided services in connection with such equity private placement;

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

Plan of Distribution

Each selling shareholder of the common stock and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock on the OTC Bulletin Board or any other stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. Until such shares are traded on the OTC Bulletin Board a selling shareholder will sell shares at a fixed price of $.46 per shares. A selling shareholder may use any one or more of the following methods when selling shares, subject to applicable federal and state securities laws:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

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

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

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

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

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

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

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

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

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

Security Ownership of Certain Beneficial Owners and Management

The following tables set forth certain information regarding beneficial ownership of our securities as of November 1, 2008 by (i) each person who is known by us to own beneficially 5% or more of the Company's outstanding common stock, (ii) each of our directors, (iii) each of our named executive officers, and (iv) all of our directors and executive officers as a group. We have determined beneficial ownership in accordance with the rules of the Securities and Exchange Commission. Under these rules, beneficial ownership generally includes voting or investment power over securities. A person (or group of persons) is deemed to be the "beneficial owner" of our securities if he or she, directly or indirectly, has or shares the power to vote or to direct the voting of, or to dispose or direct the disposition of such securities. Accordingly, more than one person may be deemed to be the beneficial owner of the same security. Unless otherwise indicated, the persons named in the table below have sole voting and/or investment power with respect to the number of shares of common stock indicated as beneficially owned by them. A person is also deemed to be a beneficial owner of any security, which that person has the right to acquire within 60 days, such as options or warrants to purchase shares of our common stock. Beneficial ownership and percentage ownership are based on 8,130,841 shares of common stock outstanding as of February 1, 2009. Unless otherwise stated, the address of our directors and executive officers is c/o BioDrain Medical, Inc., 2060 Centre Pointe Boulevard, Suite 7, Mendota Heights, Minnesota 55120.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Lawrence W. Gadbaw (1)	139,563	1.7%
Kevin R. Davidson (2)	573,219	6.6%
Gerald D. Rice (3)	84,994	1.0%
Chad A. Ruwe (4)	621,429	7.6%
Peter L. Morawetz (5)	107,739	1.3%
Thomas J. McGoldrick (6)	23,942	*%
Andrew P. Reding (7)	23,942	*%
Carl Schwartz (8)	500,000	6.1%
Bernard Puder Revocable Trust (9)	430,000	5.3%
James Dauwalter Living Trust (10)	571,429	7.0%
James R. Taylor IV (11)	571,429	7.0%
Nimish Patel (12)	687,592	8.4%
Erick Richardson (13)	674,724	8.2%
All directors and executive officers as a group (7 persons)	1,574,828	17.9%

* Less than one percent

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

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

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

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

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

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

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

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

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

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

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

(12) Includes 412,411 shares of common stock, 45,595 shares of common stock underlying warrants and, 45,595 shares of common stock underlying convertible notes. Also includes 183,991 shares of common stock held by RP Capital LLC, for which Nimish Patel and Erick Richardson have shared voting and dispositive control. Does not include 60,714 shares of common stock held by Richardson & Patel LLP. The voting and dispositive control of such shares are held by Mr. Douglas Gold. Mr. Patel does not currently have any options to acquire additional shares of common stock of the Company.

(13) Includes 399,543 shares of common stock, 45,595 shares of common stock underlying warrants and, 45,595 shares of common stock underlying convertible notes. Also includes 183,991 shares of common stock held by RP Capital LLC, for which Nimish Patel and Erick Richardson have shared voting and dispositive control. Does not include 60,714 shares of common stock held by Richardson & Patel LLP. The voting and dispositive control of such shares are held by Mr. Douglas Gold. Mr. Richardson does not currently have any options to acquire additional shares of common stock of the Company.

Description of Securities

General

We are authorized to issue only one class of shares, which is designated as common stock. On October 20, 2008, our board of directors approved a resolution to increase the total number of shares of common stock that we are authorized to issue from 11,970,994 to 40,000,000 with $0.01 par value per share. Such action was approved by the Company's shareholders holding a majority of the shares entitled to vote thereon at a special meeting of shareholders held on December 3, 2008.

Common Stock

The securities being offered by the selling shareholders are shares of our common stock. Prior to this offering there has been no public or private trading market for our common stock and there will be no such trading market until our common stock is approved for quotation on the OTC Bulletin Board. As of November 1, 2008, there were issued and outstanding 8,130,841 shares of common stock that were held of record by 92 shareholders.

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

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

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

Warrants and Convertible Notes

As of November 1, 2008, there were outstanding warrants to purchase 5,816,577 shares of our common stock, including 620,095 warrants exercisable at a price of $0.42 per share, issued in conjunction with a bridge loan we undertook in July 2007, and 4,689,291warrants exercisable at a price of $0.46 per share, issued in conjunction with the private offering we completed in October 2008, including 4,552,862 warrants issued to investors and 136,429 warrants issued to consultants who provided services in connection with the offering. These warrants are immediately exercisable. If there is no effective registration statement registering the underlying shares by August 31, 2009, these warrants contain cashless exercise provisions that allow the holder to exercise the warrant for a lesser number of shares of common stock in lieu of paying cash. The number of shares that would be issued in this case would be based upon the market price of the common stock at the time of the net exercise, or if there is no market price, the price per share as determined by mutual agreement of the Company and the holder. As of September 30, 2008, there were other outstanding warrants to purchase 5,816,577 shares of our common stock at exercise prices ranging from $.02 to $3.76 per share.

There are also outstanding convertible notes to purchase shares of our common stock at an exercise price of $.35 per share, which were issued in conjunction with the bridge loan we undertook in July 2007 but also considered part of the October 2008 financing. The convertible notes total $170,000 and are held by seven holders. The notes are convertible into 620,095 shares of common stock and warrants to purchase 620,095 shares of common stock were granted in connection therewith. The notes bear no interest rate and have passed their original maturity date of April 2008. If there is no effective registration statement registering the underlying shares by within 180 days of the closing of the October 2008 private placement offering, these notes contain certain monetary penalties imposed upon the Company. These penalties will not exceed 16% of the total funds raised, or approximately $250,000, which would be paid out on a pro rata basis to the investors of the October 2008 offering. This penalty was provided to create incentive for the Company to complete the registration of the securities tied to this investment.

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

Stock Options

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

Dividends

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

Registration Rights

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

Anti-Takeover Effects of Certain Provisions of Minnesota Law

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

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

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

Disclosure of Commission Position of Indemnification for Securities Act Liabilities

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

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

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

(2) acted in good faith;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Where You Can Find More Information

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

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

Experts

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

Legal Matters and Interests of Named Experts

Richardson & Patel LLP has given us an opinion relating to the due issuance of the common stock being registered. The law firm of Richardson & Patel, LLP ("R & P") owns 60,714 shares of our common stock. Nimish Patel, a principal of R & P, holds 412,411 shares of our common stock, 45,595 shares underlying certain convertible notes, and 45,595 shares underlying certain warrants. Erick Richardson, another principal of R & P, holds 399,543 shares of our common stock, 45,595 shares underlying certain convertible notes, and 45,595 shares underlying certain warrants. RP Capital, a limited liability company owned by Mr. Richardson and Mr. Patel, holds 142,857 shares of our common stock and warrants to purchase 142,857 shares of our common stock. Other R & P employees and principals beneficially own 320,858 shares of our common stock and warrants to purchase 28,571 shares of our common stock. The aggregate number of BioDrain securities held by Richardson & Patel LLP and its affiliates includes 1,336,383 shares of common stock, 91,190 shares of common stock underlying convertible notes, and 353,808 shares of common stock subject to exercise of warrants. This describes all Company securities held by Richardson & Patel LLP and its affiliates. All of these shares are being registered pursuant to this registration statement.

Financial Information

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

INDEX TO FINANCIAL STATEMENTS

BioDrain Medical, Inc.

(A Development Stage Company)

Interim Financial Statements

September 30, 2008

(Unaudited)

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

	September 30, 2008 (Unaudited)	December 31, 2007	September 30, 2007 (Unaudited)
ASSETS			
Current assets:			
Cash	$ 744,929	$ 4,179	$ 17,733
Prepaid expenses	37,241	4,558	547
Other current assets	163,333,	—	—
Total current assets	945,503	8,737	18,280
Fixed assets	8,699	—	—
Intangibles, net	134,299	113,056	110,425
Total assets	$ 1,088,501	$ 121,793	$ 128,705
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Current portion of long-term debt (See Note 6)	$ 5,800	$ 23,800	$ 199,800
Current portion of convertible debt (See Note 6)	180,000	180,000	
Accounts payable	284,567	207,657	136,072
Accrued expenses	277,088	226,429	439,818
Notes payable (See Note 6)	10,000	10,000	20,973
Total current liabilities	757,455	647,886	796,663
Long-term debt and convertible debt (See Note 6)	129,559	136,508	140,682
Stockholders' equity (deficit):			
Common stock $0.01 par value; 40,000,000, 11,970,994, 11,970,994 shares authorized; 8,130,841, 823,676 and 823,077shares issued and outstanding	81,308	8,237	8,231
Additional paid-in capital	1,837,846	117,833	105,877
Deficit accumulated during development stage	(1,717,667)	(788,671)	(930,801)
Total stockholders' equity (deficit)	201,487	(662,601)	(808,640)
Total liabilities and stockholders' equity (deficit)	$ 1,088,501	$ 121,793	$ 128,705

See accompanying notes to financial statements.

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

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

See accompanying notes to financial statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
Issuance of common stock 9/1/02 at $.0167/share (1)	598,549	$ 5,985	$ 4,015	$ —	$ 10,000
Issuance of common stock 10/23/02 at $1.67/share	2,993	30	4,970		5,000
Vested stock options and warrants	—	—	—	—	—
Net loss	—	—	—	(51,057)	(51,057)
Balance on December 31, 2002 (Unaudited)	601,542	$ 6,015	$ 8,985	$ (51,057)	$ (36,057)
Issuance of common stock 2/12/03 at $.0167/share (2)	23,942	239	161	—	400
Issuance of common stock 6/11-12/3/03 (3) at $1.67/share	21,548	216	34,784		35,000
Vested stock options and warrants	—	—	—	—	—
Net loss	—	—	—	(90,461)	(90,461)
Balance on December 31, 2003 (Unaudited)	647,032	$ 6,470	$ 43,930	$ (141,518)	$ (91,118)
Issuance of common stock 5/25/04 at $.0167/share (4)	6,567	66	44	—	110
Vested stock options and warrants	—	—	—	—	—
Net loss	—	—	—	(90,353)	(90,353)
Balance on December 31, 2004 (Unaudited)	653,599	$ 6,536	$ 43,974	$ (231,871)	$ (181,361)
Issuance of common stock 12/14/05 at $.0167/share (5)	14,964	150	100	—	250
Vested stock options and warrants	—	—	2,793	—	2,793
Net loss	—	—	—	(123,853)	(123,853)
Balance on December 31, 2005 (Unaudited)	668,563	$ 6,686	$ 46,867	$ (355,723)	$ (302,161)
Issuance of common stock 5/16, 8/8/06 at $.0167/share (6)	86,869	869	582	—	1,451
Issuance of common stock 10/19, 23/06 at $.0167/share (7)	38,906	389	261	—	650
Issuance of common stock 12/01/06 at $1.67/share (8)	28,730	287	44,523	—	44,810
Vested stock options and warrants	—	—	13,644	—	13,644
Net loss	—	—	—	(273,026)	(273,026)
Balance on December 31, 2006	823,077	$ 8,231	$ 105,877	$ (628,749)	$ (514,641)
Issuance of common stock 1/30/07 at $1.67/share (9)	599	6	994	—	1,000
Vested stock options and warrants	—	—	10,962	—	10,962
Net loss	—	—	—	(159,922)	(159,922)
Balance on December 31, 2007	823,676	$ 8,237	$ 117,833	$ (788,671)	$ (662,601)
Issuance of common stock 6/11 - 9/30//08 at $.35/share (10)	7,101,266	71,012	1,511,683	—	1,582,695
Issuance of common due to antidilution provisions	205,899	2,059	(2,059)		0
Vested stock options and warrants	—	—	210,389	—	210,389
Net loss	—	—	—	(928,996)	(928,996)
Balance on September 30, 2008)	8,130,841	$ 81,308	$ 1,837,846	$ (1,717,667)	$ 201,487

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

See accompanying notes to financial statements.

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

	For the Nine Months Ended September 30, 2008 (Unaudited)	For the Nine Months Ended September 30, 2007 (Unaudited)	For the Year Ended December 31, 2007	For the Period From April 23, 2002 (Inception) To September 30, 2008 (Unaudited)
Cash flows from operating activities:				
Net loss	$ (928,995)	$ (302,051)	$ (159,922)	$ (1,717,667)
Adjustments to reconcile net loss to net cash used in operating activities:				
Amortization	—	-	47	—
Vested stock options and warrants	210,389	8,500	10,962	237,788
Changes in assets and liabilities:				
Prepaid expenses	(32,684)	(275)	(4,287)	(37,242)
Other assets	(163,333)		—	(163,333)
NNotes Payable to Shareholder			(10,973)	
Accounts payable	76,910	67,147	127,125	284,567
Accrued expenses	50,657	1,771	(187,092)	277,086
Net cash used in operating activities	(787,056)	(224,861)	(224,140)	(1,118,801)
Cash flows from investing activities:				
Purchases of fixed assets	(8,699)	-	—	(8,699)
Purchases of intangibles	(21,242)	(43,460)	(46,092)	(134,298)
Net cash used in investing activities	(29,941)	(43,460)	(46,092)	(142,997)
Cash flows from financing activities:				
Note payable to shareholder	—	274,761	(10,973)	(10,973)
Proceeds on long-term debt	—	-	274,000	421,505
Principal payments on long-term debt	(24,949)	(2,011)	(1,592)	(85,173)
Issuance of common stock (1)	1,582,696	12,301	1,000	1,681,367
Net cash provided by financing activities	1,557,747	285,051	273,408	2,006,726
Net increase in cash and cash equivalents	740,750	16,730	3,176	744,929
Cash at beginning of period	4,179	1,003	1,003	—
Cash at end of period	$ 744,929	$ 17,733	$ 4,179	$ 744,929

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

See accompanying notes to financial statements.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Accounting Estimates

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

Intangible Assets

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

Income Taxes

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

Research and Development

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

Patent and Intellectual Property

The Company recently completed and executed an agreement to secure exclusive ownership of the patent- from an inventor, Marshall Ryan. Mr. Ryan received a combination of cash and warrants, and he will receive a 4% royalty on FMS (the Product) sales for the life of the patent. At the signing of the agreement, Mr. Ryan received $75,000 in exchange for the exclusive assignment of the patent. In addition, on June 30, 2009, Mr. Ryan, through his Mid-State Stainless, Inc. entity, will receive $100,000 as payment (currently recorded as an account payable with the Company) for past research and development activities. Should Mr. Ryan be utilized in the future for additional product development activities, he will be compensated at a rate of ninety five dollars ($95.00) per hour. Mr. Ryan also received a warrant to purchase 150,000 shares of our common stock at a price of $.35 per share. The warrant has a term of five years, ending on June 30, 2013. Should there be a change in control of the Company (defined as greater than 50% of the Company's outstanding stock or substantially all of its assets being transferred to one independent person or entity), Mr. Ryan will be owed a total of $2 million to be paid out over the life of the patent if the change in control occurs within 12 months of the first sale of the Product; or $1 million to be paid out over the life of the patent if the change in control occurs between 12 and 24 months of the first sale of the Product; or $500,000 to be paid out over the life of the patent if the change in control occurs between 24 and 36 months of the first sale of the Product. There will be no additional payment if a change in control occurs more than 36 months after the fist sale of the Product.

NOTE 2 – DEVELOPMENT STAGE OPERATIONS

The Company was formed April 23, 2002. Since inception to September 30, 2008, 7,532,292 shares have been issued between par value and $1.67. Operations since incorporation have been devoted to raising capital, obtaining financing, development of the Company's product, and administrative services.

NOTE 3 – STOCK OPTIONS AND WARRANTS

In connection with the financing completed in October 2008, the Company has effected two reverse stock splits, one on June 6, 2008 and another on October 20, 2008. 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 a stock option plan, which allows issuance of both incentive and non-qualified stock options to employees, directors and consultants of the Company, where permitted under the plan. The exercise price for each stock option is determined by the board of directors. Vesting requirements are determined by the board of directors when granted and currently range from immediate to three years. Options under this plan have terms varying from three to seven years.

We adopted the provisions of FASB Statement No. 123R, *Share-Based Payment* (SFAS 123R) effective January 1, 2006. As specified in SFAS 123R, we value stock option awards using the "grant date fair value" method and expense them on a straight-line basis over the service period, generally the vesting period. We opted for early adoption of the provisions of SFAS 123R. The provisions of SFAS 123R are applicable to stock options awarded by us beginning in 2005 and we are recognizing compensation expense for options granted in 2005 and thereafter.

We have elected to value the options using the Black-Scholes-Merton option valuation model. The grant date fair value of these options was calculated using a risk-free interest rate of 3.00% to 4.50%, an expected life of 2.5 to 5years an expected volatility of 45% and a dividend rate of 0%. Compensation recognized in our financial statements was $10,962 and $13,644 for the years ended 2007 and 2006, respectively, and $210,389 and $8,245 for September 30, 2008 and 2007, respectively.

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

	Stock Options (1)		Warrants (1)	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding at December 31, 2005	17,956	$ 1.67	20,950	$ 2.62
Issued	23,942	1.67	71,826	0.85
Outstanding at December 31, 2006	41,898	$ 1.67	92,776	$ 1.25
Issued	5,985	1.67	28,502	0.35
Outstanding at December 31, 2007	47,882	$ 1.67	121,278	$ 1.04
Issued	1,083,292	0.17	5,075,204	0.45
Outstanding at September 30, 2008	1,131,174	$ 0.24	5,196,482	0.47

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

At September 30, 2008, 651,174 stock options are fully vested and currently exercisable. 5,121,482 warrants are fully vested and exercisable.

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

Range of Exercise Prices		Shares	Weighted Average Remaining Life
Options			
$0.01		$ 543,292	$ 9.68
$0.35		540,000	.57
$1.67		47,882	2.75
	Total	1,131,174	
Warrants			
$0.02		71,826	5.70
$0.35		178,502	2.59
$0.42		620,095	
$0.46		4,889,291	2.63
$1.67		44,892	2.94
$3.76		11,971	0.04
	Total	5,816,577	

Stock options and warrants expire on various dates from October 2008 to June 2018. In October 2007, the exercise price on certain warrants changed from $3,34to $3.76 in accordance with the common stock warrant purchase agreement.

We determined that 1,920,000 shares of our common stock were to be allocated to our shareholders existing at the time of the October 2008 offering (also referred to as the original shareholders, the Founders, or the selling shareholders). Since the total of our fully-diluted shares of common stock was greater than 1,920,000, our board of directors approved a reverse stock split of 1-for-1.2545. After this split was approved, additional options and warrants were identified, requiring a second reverse stock split in order to reach the 1,920,000. The second reverse stock split on the reduced 1-for-1.2545 balance was determined to be 1-for-1.33176963. Taken together, if only one reverse stock were performed, the number would have been a reverse stock split of 1-for 1.670705.

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

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

Stock, Stock Options and Warrants Granted by the Company

Warrants

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

Valuation and accounting for options and warrants
The Company determines the grant date fair value of options and warrants using a Black-Scholes-Merton option valuation model based upon assumptions regarding risk-free interest rate, expected dividend rate, volatility and estimated term. For grants during 2008 we used a 2.5 to 4% risk-free interest rate, 0% dividend rate, 45% volatility and estimated term of 2.5 to 5 years. Values computed using these assumptions ranged from $.048 per share to $.342 per shares. 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 and warrants granted in connections with a debt financing are treated as a debt discount and amortized as interest expense over the term of the debt. Warrants issued in connection with the $170,000 in convertible debt were not issued as of September 30, 2008 and, therefore, the debt discount was not recorded as of that date.

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

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

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

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

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

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

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

Stock and Stock Options

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

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

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

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

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

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

On December 1, 2006, we issued 2,983 shares of common stock to pay a consulting fee to Wisconsin Business Innovation Corporation, a related firm of WREF.

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

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

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

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

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

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

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

The following table is the current listing of stock options and warrants by year of grant:

Stock options:

Year	Shares	Price
2005	17,956	$ 1.67
2006	23,941	1.67
2007	245,985	.35-1.67
2008	843,292	.01-.35
Total	1,131,174	$ .01-$1.67

Warrants:

Year	Shares	Price
2002	11,971	$ 3.76
2005	8,979	1.67
2006	71,826	.02-1.67
2007	28,502	.35
2008	5,075,204	.02-.46
Total	5,196,482	.02-3.76

Other Securities For Issuance Upon Certain Contingencies

In 2007, three of our current and former directors/executive officers, Lawrence Gadbaw, Gerald Rice and Kevin Davidson, and a former employee that left the Company in April 2006, agreed to waive an aggregate of approximately $346,700 in accrued, unpaid salaries for their services through June 2007 and Mr. Morawetz agreed to defer his consulting fees of $84,963 (please see description below). In December 2007, upon request from our funding brokers, we reduced accrued payroll liabilities by $346,714 through November 2007. This total was waived compensation from Mr. Davidson in the amount of $70,000, waived compensation from Mr. Rice in the amount of $125,000, waived compensation from Mr. Gadbaw in the amount of $138,541 and waived compensation from an employee who left the Company in April 2006 in the amount of $13,369. In exchange therefore, Mr. Gadbaw and Mr. Rice each will be granted an option to purchase 160,000 shares of common stock and Mr. Davidson will be granted an option to purchase 80,000 shares of common stock, all at $.35 per share with vesting upon the Company raising an additional $3 million in financing subsequent to the October 2008 financing. In addition, Mr. Rice is entitled to receive a one-time cash bonus of $46,000 and Mr. Davidson is entitled to receive a one-time cash bonus of $23,000 when the Company raises an additional $3 million subsequent to the October 2008 financing. Mr. Gadbaw is currently receiving $2,000 per month until a total of $46,000 of accrued salary liability is paid.

In September 2002, an oral agreement was made with director Peter Morawetz whereby he would provide sales, marketing and general administrative support to the Company for a fee of $1,770 per month. The Company's expectation at the time was that the Company would have received equity financing to fund these payments but the Company did not receive that funding. Pursuant to an oral agreement with Mr. Morawetz the Company could defer payment of these amounts. The Company accrued these fees through August 2006 when Mr. Morawetz's support services ended. The fees accrued totaled $84,963 but no amount has been paid. Mr. Morawetz and the Company have no formal agreement as to the amount and timing, if any, of these amounts.

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

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

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

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

The basis used for valuation of the options and warrants was the stock and warrant prices at which investors of the October funding paid for their shares. This valuation was for stipulating the number of warrants to be granted in connection with the financing and is not to be confused with the grant date fair value as defined in SFAS 123R. The valuation is subject to change due to downward pressure from the current economic downturn and unknown barriers to successful approvals of our product by FDA and UL or TUV or from successful market penetration. We believe that the likelihood of change in the near future is relatively high.

NOTE 4 – INCOME TAXES

There is no income tax provision in the accompanying statement 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, 2008, were approximately $1,261,000 and will begin to expire in 2018.

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

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

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

NOTE 5 –NOTES PAYABLE

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

NOTE 6 – LONG-TERM DEBT

Long-term debt is as follows:

	September 30, 2008	September 30, 2007
Notes payable to several individuals due April 2008 including 8% fixed interest and is now delinquent. The notes are convertible into 620,095 shares of the Company's common stock and automatically convert at the effective date of this registration statement.	$ 170,000	$ —
Note payable to bank in monthly installments of $1,275/including variable interest at 2% above the prevailing prime rate (6.00% at September 30, 2008) to August 2011 when the remaining balance is payable. The note is personally guaranteed by executives of the Company.	41,359	49,901
Note payable to NWBDC with interest only payments at 8% to December 2008 when the remaining balance is payable. The note was personally guaranteed by executives of the Company. The note was paid in full on June 24, 2008.	—	18,000
Notes payable to two individuals with interest only payments at 12% to March 2012 when the remaining balance is payable. The notes are convertible into 285,715 shares of stock in the Company at $.35 per share.	100,000	100,000
Notes payable to four shareholders of the Company that are overdue. The notes are convertible into 11,429 shares of stock in the Company at $.35 per share.	4,000	4,000
Total	315,359	181,901
Less amount due within one year	185,800	39,900
Long-Term Debt	$ 129,559	$ 142,001

Cash payments for interest were $2,718 for the nine months ended September 30, 2008 and $3,964 for the same period in 2007. The notes payable of $10,000, $170,000, $100,000 and $4,000 are delinquent and could be called by the holders, putting additional strains on our liquidity. The note for $170,000 contains provisions for a one-time penalty of $25,000 if this registration statement is not filed within 120 days of August 31, 2008 and $5,000 per month, beginning March 2009, until the registration statement is declared effective by the SEC with the maximum penalty of approximately $250,000..

Principal payments required during the next five years are:

2009 - $185,800
2010 - $12,000
2011 - $13,300
2012 - $107,300
2013 - $0.

Commitments and Contingencies

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

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

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

NOTE 7 – SUBSEQUENT EVENTS

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

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

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
BioDrain Medical, Inc.
Orono, Minnesota

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

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

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

/s/Olsen Thielen & Co., Ltd

St. Paul, Minnesota
August 12, 2008

BioDrain Medical, Inc.

(A Development Stage Company)

Financial Statements

December 31, 2007

(Audited)

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

	December 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash	$ 4,179	$ 1,003
Prepaid expenses	4,558	271
Total current assets	8,737	1,274
Intangibles, net	113,056	67,011
Total assets	$ 121,793	$ 68,285
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt (See Note 6)	$ 33,,800	$ 20,500
Current portion of long-term convertible debt (See Note 6)	170,000	
Accounts payable	207,657	80,532
Accrued expenses	226,429	413,521
Note payable (See Note 6)	10,000	10,000
Note Payable to Shareholder	—	10,973
Total current liabilities	647,886	535,526
Long-term convertible debt (See Note 6)	136,508	47,400
Stockholders' equity (deficit):		
Common stock $0.01 par value; 20,000,000 shares authorized; 823,676 and 823,077 shares issued	8,237	8,231
Additional paid-in capital	117,833	105,877
Deficit accumulated during development stage	(788,671)	(628,749)
Total stockholders' equity (deficit)	(662,601)	(514,641)
Total liabilities and stockholders' equity (deficit)	$ 121,793	$ 68,285

See accompanying notes to financial statements.

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

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

See accompanying notes to financial statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance on December 31, 2005 (Unaudited)	668,563	$ 6,686	$ 46,867	$ (355,723)	$ (302,161)
Issuance of common stock 5/16, 8/8/06 at $.0167/share (6)	86,869	869	582	—	1,451
Issuance of common stock 10/19, 23/06 at $.0167/share (7)	38,906	389	261	—	650
Issuance of common stock 12/01/06 at $1.67/share (8)	28,730	287	44,523	—	44,810
Vested stock options and warrants	—	—	13,644	—	13,644
Net loss	—	—	—	(273,026)	(273,026)
Balance on December 31, 2006	823,077	$ 8,231	$ 105,877	$ (628,749)	$ (514,641)
Issuance of common stock 1/30/07 at $1.67/share (9)	599	6	994	—	1,000
Vested stock options and warrants	—	—	10,962	—	10,962
Net loss	—	—	—	(159,922)	(159,922)
Balance on December 31, 2007	823,676	$ 8,237	$ 117,833	$ (788,671)	$ (662,601)

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

See accompanying notes to financial statements.

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

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

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Accounting Estimates

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

Intangible Assets

Intangible assets consist of patent costs. The cost of filing and maintaining patents is included in this intangible asset category until such time that the application is abandoned or it is deemed not worth the cost to continue the maintenance. These assets are not subject to amortization until the property patented is in production. The assets are reviewed for impairment annually, and impairment losses, if any, are charged to operations when identified. No impairment losses have been identified by management.

Income Taxes

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

Research and Development

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

NOTE 2 – DEVELOPMENT STAGE OPERATIONS

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

NOTE 3 – STOCK OPTIONS AND WARRANTS

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

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

We adopted the provisions of FASB Statement No. 123R, *Share-Based Payment* (SFAS 123R) effective January 1, 2006. As specified in SFAS 123R, we value stock option awards using the "grant date fair value" method and expense them on a straight-line basis over the service period, generally the vesting period. We opted for early adoption of the provisions of SFAS 123R. The provisions of SFAS 123R are applicable to stock options awarded by us beginning in 2005 and we are recognizing compensation expense for options granted in 2005 and thereafter.

We have elected to value the options using the Black-Scholes-Merton option valuation model. The fair value of these options was calculated using a risk-free interest rate of 3.00% to 4.50%, an expected life of 2.5 to 5years an expected volatility of 45% and a dividend rate of 0%. Compensation recognized in our financial statements was $10,962 and $13,644 for the years ended 2007 and 2006, respectively.
Compensation expense recognized in the financial statements was $10,962 and $13,644 for 2007 and 2006, respectively.

Warrants are also valued using the Black-Scholes-Merton valuation model using a risk-free interest rate of 3.00% to 4.5%, an estimated life of 1.5 to 2.5 years an expected dividend rate of 0% and an expected volatility of 45%. Warrants granted to employees, directors and consultants will be expensed as compensation or an appropriate consulting expense category and amortized over the service life, normally the vesting period. Warrants issued in connection with the sale of common stock will be valued in the same manner and included in equity. Warrants issued in connection with convertible debt will be valued in the same manner but treated as a debt discount and amortized as additional interest expense over the term of the debt.

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

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

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

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

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

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

Securities for issuance upon certain contingencies:

In 2007, three of our current and former directors/executive officers, Lawrence Gadbaw, Gerald Rice and Kevin Davidson, and a former employee that left the Company in April 2006, agreed to waive an aggregate of approximately $346,700 in accrued, unpaid salaries for their services through June 2007 and Mr. Morawetz agreed to defer his consulting fees of $84,963 (please see description below). In December 2007, upon request from our funding brokers, we reduced accrued payroll liabilities by $346,714 through November 2007. This total was waived compensation from Mr. Davidson in the amount of $70,000, waived compensation from Mr. Rice in the amount of $125,000, waived compensation from Mr. Gadbaw in the amount of $138,541 and waived compensation from an employee who left the Company in April 2006 in the amount of $13,369. In exchange therefore, Mr. Gadbaw and Mr. Rice will each be granted options to purchase 160,000 shares of common stock and Mr. Davidson will be granted an option to purchase 80,000 shares of common stock, all at $.35 per share upon the Company raising an additional $3 million in financing subsequent to the October 2008 financing.. In addition, Mr. Rice is entitled to receive a one-time cash bonus of $46,000 and Mr. Davidson is entitled to receive a one-time cash bonus of $23,000 when the Company raises an additional $3 million subsequent to the October 2008 financing. Mr. Gadbaw is currently receiving $2,000 per month until a total of $46,000 of accrued salary liability is paid.

. Because the bonus and stock options to be grantto Mr. Davidson and Mr. Rice are contingent on raising an additional $3 million, no accounting entry was made.

NOTE 4 – INCOME TAXES

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

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

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

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

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

NOTE 5 –NOTES PAYABLE

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

NOTE 6 – LONG-TERM DEBT

Long-term debt is as follows:

	December 31,	
	2007	**2006**
Notes payable to several individuals due April 2008 including 8% fixed interest. The notes are convertible into 620,095 shares of the Company's common stock.	$ 170,000	$ —
Note payable to bank in monthly installments of $1,255/including variable interest at 2% above the prevailing prime rate (7.25% at December 31, 2007) to August 2011 when the remaining balance is payable. The note is personally guaranteed by executives of the Company.	48,308	49,900
Note payable to Development Corporation in interest only payments at 8% to December 2008 when the remaining balance is payable. The note is personally guaranteed by executives of the Company.	18,000	18,000
Notes payable to two individuals in interest only payments at 12% to March 2012 when the remaining balance is payable. The notes are convertible into shares of stock in the Company at a price equal to the next completed funding transaction by the Company.	100,000	—
Notes payable to four shareholders of the Company that are overdue. The notes are convertible into shares of stock in the Company at $1.00 per share.	4,000	—
Total	340,308	67,900
Less amount due within one year	203,800	20,500
Long-Term Debt	$ 136,508	$ 47,400

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

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

NOTE 7 – SUBSEQUENT EVENTS

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

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

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

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

Part II

Item 24. Indemnification of Directors and Officers.

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

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

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

(2) acted in good faith;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 25. Other Expenses of Issuance and Distribution.

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

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

Item 26. Recent Sales of Unregistered Securities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On July 23, 2007, we entered into a convertible debenture with certain investors who loaned us $170,000. Such securities are convertible into 620,095 shares and the lenders were also entitled to receive warrants to purchase 620,095 shares at 0.42 per share. The Company will issue the warrants In February 2009

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

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

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

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

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

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

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

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

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

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

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

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

Item 27. Exhibits.

EXHIBIT INDEX

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

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

* Filed herewith.

** Previously filed

*** To be filed by amendment.

Item 28. Undertakings.

The undersigned registrant hereby undertakes:

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

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

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

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

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

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

4. If the registrant is relying on Rule 430B:

   Each prospectus filed by the registrant pursuant to Rule 424(b)(3)shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

   Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date; or

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

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

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

SIGNATURES

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

BIODRAIN MEDICAL, INC.

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

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

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

* /s/ Kevin Davidson
Chief Executive Officer and Power of Attorney

ARTICLES OF AMENDMENT
of
ARTICLES OF INCORPORATION
of
BIODRAIN MEDICAL, INC.

The undersigned, the President of BIODRAIN MEDICAL, INC., a Minnesota corporation (the "Corporation"), does hereby certify that the following resolution was adopted by the shareholders of the Corporation in accordance with the applicable provisions of Minnesota Statutes:

Amendment of Articles of Incorporation

RESOLVED, that the Articles of Incorporation of the Corporation are amended by deleting Article V in full and replacing it with the following:

"ARTICLE V

Authorized Shares: The total number of par shares which this Corporation shall have authority to issue is 40,000,000 shares with a par value of one cent ($.01) per share; all of such shares shall be common stock."

IN WITNESS WHEREOF, I have hereunder subscribed my name this 3rd day of December, 2008.

/s/ Gerald D. Rice
Jerry Rice, Secretary

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use in this Amendment No. 2 to the Registration Statement on Form S-1 of our audit report, dated August 12, 2008, relating to the financial statements of BioDrain Medical, Inc. appearing in the Prospectus which are a part of this Registration Statement. We also consent to the reference to our Firm under captions “Experts” in the Prospectus.

Olsen, Thielen & Co. Ltd.

St. Paul, Minnesota
February 12, 2009

RICHARDSON & PATEL LLP
10900 Wilshire Blvd., Suite 500
Los Angeles, California 90024

February 12, 2009

VIA EDGAR AND FEDERAL EXPRESS

Securities and Exchange Commission
Division of Corporation Finance
100 F. Street, N.E.
Washington, D.C. 20549-6010
Attn: Peggy Fisher, Assistant Director

Re: ***BioDrain Medical, Inc.***
Registration Statement on Form S-1 ("S-1")
Filed January 29, 2009
File No. 333-155299

Dear Ms. Fisher:

On behalf of BioDrain Medical, Inc. (the "Company" or "BioDrain"), set forth below are the Company's responses to the comments received from the staff ("Staff") of the Securities and Exchange Commission in the letter dated January 29, 2009. We have reproduced the Staff's comments in bold type for your convenience and have followed the comment with the Company's response. References in this letter to "we", "our", or "us" mean the Company or its advisors, as the context may require.

Fee Table

1. **Please tell us, with a view toward disclosure, how you concluded to register the resale of 7,101,267 shares of common stock and 4,689,290 shares underlying warrants and that you have 8,180,831 shares outstanding. It appears that adding the numbers to the bullet points in your response to prior comment 1 does not result in the totals expressed prior to those bullet points, in your fee table and throughout your document.**

Response:

The outstanding shares being registered are 7,101,266, the shares underlying warrants (but not currently outstanding) related to the October 2008 financing are 4,689,291, the shares underlying the warrants related to the convertible debt financing are 620,095 and those numbers are contained in the current amendment 2 to the S-1.

The equity investors and consultants involved in this 2008 financing obtained registration rights to our shares and we are filing this registration statement to fulfill the obligation to register such shares. The remaining shares of the Company's common stock are not being registered at this time.

The correct number of shares of our common stock outstanding is 8,180,841. This does not include shares underlying currently outstanding warrants as they have not been issued.

Prospectus Cover Page

2. We will continue to evaluate your response to prior comment 4 after the warrants underlying the convertible notes have been issued.

Response: The Company will have issued warrants to the bridge warrant holders within the next two weeks.

3. We note that you put in a price range. Prior to effectiveness, please state the specific fixed price at which the securities will be sold until they are trading on the OTC Bulletin Board.

Response: The specific fixed price at which the securities will be sold prior to trading will be $0.46 per share.

Prospectus Summary, page 1

4. If you have already received a United States patent for your product, as indicated by your responses to prior comments 10 and 11, then please revise your second paragraph here accordingly.

Response: We have revised our second paragraph on page 1 to reflect that the patents have already been issued.

Risk Factors, page 3

We face intense competition …, page 5

5. We note your response to prior comment 12. Because it appears you have not provided us with the supplemental materials we requested, we reissue the first sentence of prior comment 12. Also, please reconcile your disclosure here and on pages 38 and 46 regarding the market share currently held by Cardinal Health and Stryker.

Response: We have deleted references to Frost & Sullivan in this section and attributed these statements as opinions of management.

Market share reconciliation. There is no disclosure regarding the market share held by Cardinal Health and Stryker in this risk factor. The dollar amounts refer to the overall size of each company and not their market share of the operating room fluid disposal market. It is intended only to inform the reader that our competitors are very well capitalized.

If we do not succeed …, page 6

6. We note your responses to prior comments 6 and 15.

- **Please clarify how the risks disclosed in the last paragraph relate to the restructuring agreement and how it may impact potential investors. For example, you refer here to the loss of management that could delay the implementation of your business plan. It is unclear how this poses a risk to potential investors, given your disclosure in the preceding paragraph, pages 53-54 and exhibit 10.42 that your operations will cease and your assets will be transferred to Privco. Please revise; and**

Response: We have revised this section accordingly. We have deleted reference to the loss of management as a risk to potential investors.

Explain clearly, if true, that potential investors may own shares in a public shell company if the FDA does not approve your product by the end of August 2009.

Please also refer to comment 38 below.

Response: Potential investors may not own shares in a public shell company in the event of this restructuring. If the restructuring occurs, the Company will still hold a majority interest in Privco. If a reverse merger occurs and Privco is sold or spun out to Company shareholders, potential investors will not hold shares in a shell since the reverse merger will cause BioDrain to acquire a new operating company.

We do not have a class of securities registered…, page 10

7. Regarding your response to prior comment 7:

- **Revise your disclosure in the first paragraph, which misstates the registrant's reporting obligations in the event that it registers a class of securities pursuant to Section 12 of the Exchange Act;**
- **Clarify your reference in the caption and first paragraph of this risk factor to registering your securities on a "national securities exchange." Do you mean registering a class of your securities under the Exchange Act?;**
- **We reissue the second bullet in part because that bullet requested an explanation of the effects of the inapplicability of Section 16 of the Exchange Act, not Section 26; and**
- **We note that you do not intend to register a class of your securities before this registration statement is effective; however, your disclosure on page 68 indicates that you will register a class of your securities at a later date. Please clarify when and whether you intend on registering a class of your securities under the Exchange Act. If you do not intend to so register, revise your disclosure here and page 68 to remove any implication to the contrary.**

Response: We have deleted this risk factor. We will file under a Form 8-A pursuant to the the Section 12(g) of the Exchange Act concurrently with the effectiveness of this Registration Statement.

If our common stock is accepted for quotation…, page 11

8. We note your response to prior comment 17. Rather than disclosing all listing criteria applicable to the Nasdaq and NYSE markets, please revise to disclose the listing criteria that you do not currently meet, including the criteria noted in the last sentence of this risk factor.

Response: We have revised the risk factor accordingly. We have listed the listing criteria which we do not satisfy.

Use of Proceeds, page 15

9. Expand to disclose the warrant exercise prices for the warrants being registered.

Response:The exercise price on 620,095 warrants is $.42 per share and the exercise price on 4,689,291 warrants is $.46 per share. The use of proceeds section has been updated to reflect this information.

Market Price of and Dividends on the Registrant's Common Equity…, page 17

10. Reconcile the disclosure here with that on page 29 regarding outstanding warrants.

Response:

The company has 507,191 warrants that are included in the disclosure on page 29 but are not being registered in this filing.

Critical Accounting Policies and Estimates, page 21

11. Please clarify your reference on page 22 to TUV SUD being a regulatory body. Is their approval required before you can market and sell your products? Or are they a private company that performs no regulatory oversight?

Response: TUV SUD is a product testing company, not a regulatory oversight agency. Their approval is not required to market and sell our products but would be helpful. We have updated the document to correct this misconception.

12. We re-issue prior comment 21. Please revise to provide a discussion of your critical accounting policies and estimates. This discussion should present your analysis of the uncertainties involved in applying an accounting principle at a given time or the variability that is reasonably likely to result from its application over time. You should address specifically when your accounting estimates or assumptions bear the risk of change. For example, it appears that there is significant judgment in valuing stock options and warrants. Refer to FR-72. While we see the changes in response to the comment, the revisions do not provide meaningful disclosure. Please further revise.

Response: We have revised our disclosure with respect to accounting for stock options and warrants to be more descriptive of our accounting policy. We do not believe that there any other critical accounting issues or recent accounting pronouncements or proposed accounting announcements that will have a material impact on our business,

Results of Operations, page 22

Nine Months ended September 30, 2008 and 2007

13. Please reconcile your reference here to "paying" full annual salary rates with the disclosure throughout your document that you have accrued a salary expense, which will be paid only when sufficient funds are available.

Response: We use the word "accrue" throughout the document to indicate that the expense of the full salary rate was included as an expense and is disclosed as earned in the executive compensation table but has not been paid in full in a timely manner or at all. In the event of certain payments to board members and consultants that are in negotiation with a likely settlement for well less than the original expected amount the Company has provided no accrual for the expense.

Research and Development, page 22

14. We reference prior comment 24. We see that you were notified in 2007 that you would be billed $100,000 for product development work performed by a contractor in 2003 – 2007. Please respond to the following:

- **Tell us and disclose when you recorded the $100,000 accrual.**

Response: The accrual was recorded in 2008. The R&D work performed by Marshall Ryan was completed over a two year period of time beginning in late 2006 and completed in 2008. The expense was recorded upon execution of an agreement with Mr. Ryan in August 2008. The agreement specifies a payment of $75,000 upon signing and payment of $100,000 by June 30, 2009. Amendment 2 to the Form S-1 has been updated to clarify these terms.

- **Reconcile the disclosures in the "research and development" discussions on pages 22 and 23 of MD&A. From those disclosures it is not clear whether the $100,000 was accrued in 2006 or 2008.**

Response: The accrual was recorded in 2008.

- **If the discussions on pages 22 and 23 are addressing different accruals, please clarify the disclosure. Please ensure that you have provided a clear and complete discussion of research and development costs and the accruals for those costs.**

Response: We have revised the disclosure accordingly.

- **Tell us why you did not make accruals for the work as that work was performed. In that regard, tell us why you believe there is no error in the financial statements as it appears that product development work performed in prior years is expensed in a later year.**

Response: We accrued the work at the earliest time that the form, amount and timing of the expense was known which was 2008.

Years ended December 31, 2007 and 2006

General and Administrative, page 22

15. We refer to your response to prior comment 27. Please provide us and disclose a clear basis in GAAP for the accounting applied in the reduction of the accrued salaries. While we see the revisions to the disclosure, those revisions do not provide a clear and transparent discussion of the basis in GAAP for the accounting.

Response:
Since the salaries earned but unpaid had been accrued as salary expense, the accounting to remove the liability for the ultimate payment of those amounts were treated as a reversal of the liability and the expense.

Liquidity and Capital Resources, page 23

16. We note your response to prior comment 29. Please:

- **Reconcile your disclosures on pages 23, 26 and 27 regarding the amount of outstanding debt payments you are obligated to make;**

Response: We have reconciled such disclosure.

- **Expand the third paragraph on page 25 to clearly disclose the nature of the "risks to investors" from your early stage position. Also disclose the "risk in this process" mentioned in the penultimate paragraph on page 25. For example, do you anticipate providing an inducement similar to the restructuring agreement you provided the "Investors" in order to obtain funds through your October 2008 financing?;**

Response: We have revised the Liquidity and Capital Resources section to describe that if we are unable to obtain additional capital, we may be forced to cease operations.

- **Expand the sixth paragraph on page 25 to disclose the amount of funds from your secondary financing that will be used to satisfy the obligation noted in that paragraph**

Response: We have disclosed that if $3 million of additional financing has been obtained, the amount of accrued payroll expense items due to management and board members that will be paid from the proceeds of such financing will depend upon the terms negotiated with such equity investors.

- **Disclose the rights the holders of your debts have in the event they demanded payment and you were unable to fulfill your obligations. We note the disclosure on page 25 that this would "create a liquidity issue," which does not appear to sufficiently describe the results of a formal payment demand;**

Response: We have revised the disclosure to indicate that such debtholders would have the right to bring an action against us for the payment of the debt obligation.

- **Reconcile your disclosure in the first paragraph under this caption that you expect research and development expenses to increase with your disclosure in the second paragraph on page 26 that there will be "nominal, if any, additional expenses incurred for the development of our product";**

- **Expand to discuss in more detail "the progress we have made and the opportunities ahead of us" in raising additional funds. Include in such discussion the types of additional financing you are pursuing;**

Response: We have deleted the paragraph discussing whether we have made any progress in raising additional funds. We have had discussions with investment bankers about a possible equity offering. However, we are not pursuing any equity financing until the registration statement is declared effective and such pursuit will not violate Section 5 of the Securities Act. Therefore, we have no assurance whether we would be able to obtain any financing.

- **Explain why you are "confident" that you will have the ability to raise $3 million during the first half of 2009, particularly in light of your stage of development, lack of revenues, and "current economic turmoil.";**

Response: We have deleted this paragraph. Our ability to raise $3 million is subject to numerous factors beyond our control, including the current economic and investment climate.

- **Clarify the nature of the "other operating expenses" mentioned on page 23; and**

Response: "Other operating expenses" are primarily sales and marketing expenses to launch the product. This includes advertising, marketing brochures and literature, attendance at trade shows, expenses to recruit independent sales reps and advances against commissions to jump start the sales efforts for our products.

- **Please tell us how you have communicated and will communicate with potential investors consistent with Section 5 of the Securities Act, in light of this pending registration statement.**

Response: We have communicated with investment bankers about possible engagements in a subsequent primary offering following the effectiveness of this registration statement on behalf of selling shareholders. We are aware of the restrictions on communications and solicitations with potential investors in light of this pending registration statement and will act in a manner consistent with Section 5 of the Securities Act.

We are currently consuming our capital at a rate of $75,000 per month and, based upon that balance, we believe we have sufficient resources to operate our business through the first half of 2009. Beyond that time our ability to continue at our current pace is more uncertain. We have communicated with investment bankers about possibly helping us raise additional capital after we are permitted to do so after the registration statement has been declared effective.

We believe we are in a much stronger position than we were a few months ago as a result of a patent on our FMS product and we expect to file our 510K application with the FDA by the end of February 2009. Our experienced consultants believe we may obtain FDA approval to begin selling the product by April 30, 2009.

Nine Months Ended September 30, 2008 and 2007, page 24

17. You indicate that cash used in operations in 2008 was impacted by an "increase in escrow cash." Please tell us what you mean by "escrow cash" and explain to us why that item is appropriately reported as an operating activity under SFAS 95.

Response: We have revised the term to be "restricted cash" not "escrow cash." The cash we obtained in the October 2008 financing was deposited into an account held by our law firm and expenses of the offering, including legal, accounting, finders fees and other expenses were paid before funds were distributed to us.

In addition, as per our arrangement with our October 2008 investors, approximately $170,000 was set aside into a special escrow account that is earmarked for payment of investor relations expenses after our registration statement declared effective. This cash is being treated as restricted cash in our books because it is an asset but is not available for general corporate working capital needs. In the event our registration is abandoned for any reason that money will be released to us for our general corporate use.

18. Tell us the terms of the "escrow cash" and explain where the "escrow cash" is presented in the balance sheet. If included in cash, tell us why that classification is appropriate in GAAP.

Response: The "escrow cash" which may more correctly be called "restricted cash" is included in other current asset. The entire $163,333 shown in other current assets as of September 30, 2008 is restricted cash.

19. You also indicate that cash used in operating activities in 2008 was increased by an "increase in vested operations." Please revise to clarify what you mean by an "increase in vested options" and how that increase impacted cash flows from operations.

Response: The MD&A section that discusses the increase/decrease in cash provided by (used in) operations has been updated to properly describe the sources of the increase/decrease.

Commitments and Contingencies, page 26

20. Please reconcile the amount of debt on the contractual obligation table to the balance sheet as of September 30, 2008 on page F-3. Explain how $11,800 of "long-term debt' can be due in less than one year. Please also revise to present the $10,000 notes payable and the current portion of long-term debt on the table.

Response: The contractual obligation table on page 26 was incorrect and has been updated to be consistent with the current portions of long term debt on the balance sheet and in note 6 to the financial statements.

Description of Business, page 35

21. For each issuance in the transactions beginning on page 31, state the warrant or option exercise price.

Response: Page 31 has been updated to reflect the warrant, option or common stock price for each of the transactions listed.

Description of Business, page 35

Overview, page 35

22. Please reconcile your response to prior comment 38 with exhibit 3.1, which was included as an exhibit to your original filing.

Response: We have revised by the disclosure on page 35 to indicate that the founders were Lawrence Gadbow, Jeffrey Drogue, Gerald Rice and Peter Morawetz.

23. We note your response to prior comment 39; however, we also note that you continue to make claims regarding the safety and efficacy of your product. For example, you state on page 39 that the FMS "greatly reduces" safety issues and is "uniquely positioned to dominate its market segment." You also state on page 40 that your product is "unique" and disclose on page 44 that FMS will "redefine the manner in which [infectious fluid] is collected, measured and disposed." Please reconcile these statements with your response to prior comment 60 and the fact other companies have already developed and sold fluid collection and disposal systems in your target market without exposure to healthcare workers.

Response: While the predominant method of handling infectious and diseased fluids in the operating room is by using canisters that must be manually transported into a disposal area there are some product offerings that automate a certain portion of the process. However, to our knowledge, we are the only company that offers a fully automated system that is continuous and does not, therefore, require an interruption to the operation to dispose of fluids that reach the capacity of the containers. We have revised the disclosure to reflect this unique feature.

Private Placement Financing, page 35

24. Disclose the date or dates when the warrants become exercisable.

Response: We have updated the section on page 35 to indicate that the warrants are immediately exercisable.

Current Techniques of Collecting Infectious Fluids, page 37

25. We note your response to prior comment 49. Clarify how your product will "significantly reduce the risk of healthcare worker exposure" to infectious fluids, as stated in the second paragraph on page 38, given your disclosure in the following paragraph regarding products already developed and marketed by your competitors that "address the deficiencies described above." Also expand the last bullet point on page 40 to compare how the competitors' products mentioned in the second paragraph on page 38 are different from your own.

Response: Our product significantly reduces the risk of healthcare worker exposure to infectious fluids compared to the predominant use of canisters that must be manually handled, but we still maintain a safety advantage to other automated offerings in that we have a continuous flow of the fluids into the sanitary sewer, whereas other automated systems must still be rolled out of the operating room and transported to a disposal area. We have revised the disclosure to reflect this unique feature.

The Fluid Management System (FMS), page 38

26. Regarding your responses to prior comments 42 and 55:

- **Clarify how the estimated installation cost disclosed on page 50 accounts for the uncertainty regarding the accessibility of sewer lines and suction systems noted on page 39. Also clarify the basis for your estimates regarding the cost and time of installation, given that it appears you have not yet installed your product in any facility; and**

Response: Biomedical engineers and maintenance/facility engineers have detailed blueprints of the electrical, plumbing and vacuum systems of the facility detailing the exact location of such systems and accessibility of these systems behind the walls. The device is sold with a set of mounting flanges. The ease of use and integrity of the mounting system has been verified by third parties. Vacuum drops are available in the operating rooms in multiple locations for connection to the device. Electrical hook-up is accomplished through a previously installed, readily available receptacle in the operating room. A dedicated electrical outlet can be installed if desired in a minimal amount of time. Connection to the sanitary drain line can be accomplished most efficiently with prior review and planning of the facility blueprints. Therefore, we believe that sewer lines and suction systems may ultimately be located without exorbitant costs.

- **Revise the last sentence of the penultimate paragraph on page 39 to clarify whether the information in that sentence reflects your opinion. Your current disclosure appears to attribute such information to third parties; and**

Response: We have revised the disclosure to reflect that such information reflects our opinion.

27. We note your response to prior comment 43. While your disclosure on pages 40 and 52 refers to "established timeframes and plans" for the regulatory process, it appears that the work you have done in preparation of your submission to the FDA solely involves the hiring of regulatory consultants. Please revise to clarify what work, if any, you have done in preparation of that submission. For example, have you or your regulatory consultant begun compiling any of the documents or preparing the "Submittal Document" referenced on page 52?

Response: We have contracted the services of two (2) FDA consultants. One consultant in particular has been involved in several meetings regarding the final design and initial prototype builds of the device. The consultant has been involved in the selection of third party vendors for the completion of such testing as design verification testing (DVT) and shipping and distribution testing as well as the selection of a third party FDA reviewer. The consultant has reviewed and approved testing protocols. Finally, the consultant has completed substantial work in preparing and compiling the 510(k) submittal documents. An additional FDA consultant has provided additional review of documents in support of the 510(k) submittal underway and other more strategic input and advice.

Patents and Intellectual Properties, page 41

28. We note from your response to prior comment 45 that you "do not expect to acquire ownership of any patent rights or claims pertaining to such fluid." Expand to state whether you currently have any intellectual property rights with respect to your disposable cleaning kit. Also disclose whether you have any agreements with any party regarding the disposable cleaning kit.

Response:
We do not have patents or other intellectual property rights to the cleaning fluid that we intend to include as part of our product offerings. Although we have not yet finalized an agreement with our expected cleaning fluid supplier they have verbally agreed that we would be given exclusive rights to the fluid for use in clean up in operating rooms, and they have agreed that they would not compete directly with us if providing this fluid.

29. Please clarify how the continuous operation feature mentioned in the last paragraph on page 41 provides you with a significant competitive advantage, given your disclosure on page 37 that current techniques and products are also capable of continuous operation.

Response: This section has been updated to describe our advantage to other products.

The Disposable Cleaning Kit, page 43

30. Please expand your response to prior comment 47 to disclose all material obstacles to achieving the "razor blade business model" referenced in your disclosure. For example, given your response to prior comment 45 regarding your lack of intellectual property rights to the cleaning kit, including the "special adapter," it appears that medical providers could use kits made by others rather than those made by you. Please revise.

Response: This section has been updated to clarify our disposable cleaning kit advantages.

31. Please tell us how the "forecast" mentioned in the second paragraph under this caption satisfied the requirements of Item 10 of Regulation S-K.

Response: The word "forecast" has been deleted. It was used in a generic manner to emphasize that this is an expectation based upon our business model.

Drainage Systems, page 46

32. Please reconcile your disclosures here and the second and third paragraphs on page 38 regarding whether competitive systems that utilize canisters have or need FDA approval.

Response: We have revised our disclosure to reflect that competitive systems utilizing canisters need FDA approval. We are aware that at least two of our competitors have obtained FDA approval.

Current Competition, Technology and Costs, page 46

33. Please expand your responses to prior comments 42 and 50 to include a complete discussion of the disadvantages of your product that may result in difficulty penetrating your target market. For example, we note the numerous statements regarding the limited floor space and handling needed for your product; however, it is unclear where you have discussed the disadvantages resulting from the immobility of your system, as indicated in your response to prior comment 42. Please revise to include such a discussion. For example, would the mobility of your competitors' products enable them to be used in multiple rooms in a hospital whereas use of your product would be confined to the room in which it was installed?

Response: Some of the advantages of our wall-mounted system are that it frees up precious floor space in the operating room and it requires no specially assigned staff to handle and dispose of the fluids. Some competitors have developed a mobile unit that automates the collection of the fluid and improves upon the manually handling of the canisters but will still require personnel to roll the mobile unit to a docking station to dispose of the fluid and the operation in progress must be put on hold until the mobile unit to return.One perceived benefit of the mobile unit , and a disadvantage to our wall-mounted unit, is that it can be wheeled between operating rooms so that each room does not have to have a dedicated system like our wall-mounted unit. This benefit is more perceived than real, however, because most operating rooms are scheduled on a continuous basis and would have to wait for a mobile unit to be available before surgery could commence. Another disadvantage to our wall-mounted unit is the cost, and possible disruption to the operating room, to install the wall-mounted unit and do the plumbing work to connect it to the sanitary sewer.

Pricing, page 49

34. Please explain the basis underlying the first sentence under this caption, given that you have not yet finalized any agreement related to the manufacture and distribution of your product and have not yet sold your product commercially. Also clarify the meaning of the second sentence; it is unclear to what strategy and sales objectives you are referring. The purpose of the clause following the hyphen is also unclear. Please revise.

Response: While we are in final negotiation of supply agreements for both our device and our cleaning fluid, we have received detailed proposals from our preferred vendors for both respectively illustrating procurement costs including logistics costs. Additionally, we have already entertained discussions with each regarding cost reduction opportunities moving forward in the business relationship.

Engineering and Manufacturing, page 50

35. We note your response to prior comment 57. Ensure that your disclosure distinguishes between aspiration and accomplishments. If you know the material terms of the supply agreement, disclose those terms, including the information requested by prior comment 57. If you do not know the material terms, revise your disclosure to state that fact. Also file that agreement as an exhibit when it is finalized and reconcile your statement in the first paragraph that your relationship is finalized with your subsequent disclosure that it is still being negotiated.

Response: The agreement has not been executed as of this date. We believe that the fundamental terms and conditions of the TriVirix agreement have been agreed and are no longer being negotiated. Various aspects of the language in the agreement that is secondary and in support of the terms and conditions are yet to be finalized. This is a typical manufacturing supply agreement. Beyond what was previously disclosed the agreement under final negotiation with the FMS manufacturer is a 2-year agreement, renewable thereafter in 12-month increments. Since this agreement has not yet been signed, we have revised the disclosure to indicate that these are aspirations, not actual terms.

Government Regulation, page 51

36. We reissue prior comment 61.

- **While you may encourage investors to investigate aspects related to regulation by the FDA, simply inserting a hyperlink and reference to the chapter of the Code of Federal Regulations does not provide investors with sufficient information regarding the material requirements that such regulation will have on you; and**
- **Although you refer on page 23 to market expansion to Europe and the Pacific Rim, it is unclear where you provided disclosure regarding regulations in foreign jurisdictions in which you will see to do business.**

Response: We have deleted the hyperlink and references to the FDA statute. Such information was included only to enable investors to independently verify the discussions of the government regulation section.

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

37. Please reconcile your disclosure on pages 6, 53 and exhibit 10.42 regarding the date on which the "restructuring agreement" was entered into.

Response: We have reconciled the disclosure to indicate the date of the reconstructing agreement.

38. Regarding your responses to prior comments 64 and 65:

- **It appears that investors who may acquire the shares offered pursuant to this registration statement will not receive the rights referenced in your disclosure. It also appears that those potential investors will not receive shares of "Privco" and will, instead, only hold the shares of a public shell company. If that is correct, please expand to state so directly. Also revise your disclosure on page 1 and throughout your document to disclose this consequence to potential investors;**

Response: Potential BioDrain investors will indirectly own Privco, and not just shares of a public shell. Following the restructuring, BioDrain will be a major shareholder of Privco, and hold all shares of Privco, less shares held by former BioDrain founders directly (who shall cancel their BioDrain shares). In the event BioDrain sells Privco to another party, BioDrain will receive proceeds allocable to its proportionate equity interest. If BioDrain spin-off's its Privco equity, then public shareholders will retain the interest.

- **Expand the first paragraph to clarify how the "Investors" will maintain their shares of your common stock, given that such shares are registered for resale here;**

  Response: This erroneously refers to the investors in the private placement and has been revised accordingly. The disclosure has been revised accordingly.

- **Reconcile your disclosures in paragraphs 1, 3 and 6 and third paragraph on page 54 regarding who will receive shares of Privco. Paragraph 1 and page 54 currently suggest that the "investors" will receive Privco shares immediately after the transfer of your assets to Privco; however, paragraphs 3 and 6 indicate that the "Company" will retain the Privco equity remaining after distributing Privco shares to the "Founders";**

  Response: The "Investors" refers to the PPM investors. Everyone other than the "Founders" will retain Privco equity indirectly through the Company's stake in Privco. The "Founders" will own Privco shares directly and will relinquish their stake in the Company.

- **Expand paragraph 6 to clarify whether the "Company shareholders" who will receive either Privco shares or the net proceeds from the sale of those shares include only the "investors" or whether subsequent purchasers of your securities will also receive those shares or proceeds;**

  Response: "Company shareholders" refers to all shareholders of the Company, not just the "[PPM] investors".

- **Disclose whether investors who may acquire your shares offered pursuant to this registration statement will be entitled to vote on the transfer of your assets to Privco. If it is your belief that such investors will not be entitled to vote on the asset transfer, then tell us how your conclusion is consistent with your governing documents and the laws of the jurisdiction in which you are incorporated. Cite all authority on which you rely;**

Response: Initially, Privco will be a wholly- owned subsidiary of the Company which would hold all assets and assume all liabilities of the medical fluid disposal business. This does not require BioDrain shareholder approval as this does not constituite an asset sale, merger, or other liquidating event. "Founders" would then cancel their BioDrain shares and in exchange would receive an equivalent number of Privco shares.

- **Expand the third paragraph on page 54 to disclose whether a reverse merger or similar transaction involving you, as opposed to Privco, is currently being negotiated or considered; and**

  Response: We have expanded the disclosure to reflect that there is no reverse merger or similar transaction involving the Company being negotiated or considered currently.

- **Clarify the meaning of the last sentences in the second and third paragraphs on page 54. Given your disclosure that your assets will be transferred to Privco and that you will retain the "rest of Privco equity," it is unclear what assets the "Investors" will be able to liquidate and distribute the proceeds in connection with a shareholder vote or reverse merger or similar transaction.**

  Response: The "[PPM] investors," as shareholders of BioDrain, would receive any proceeds through any distribution of consideration following any liquidation or sale to a third party of Privco.

Please also revise your disclosure on page 6, 7 and 27 in accordance with this comment.

Response: We have revised our disclosure accordingly.

39. Please reconcile your response to prior comment 66 and disclosure on page 53 with paragraphs 2 and 4 of exhibit 10.42, which indicate that all company stock, options and warrants will be cancelled, not just the securities held by the founders. Also reconcile your disclosure in paragraph 3 on page 53 with paragraph 3 of exhibit 10.42, which indicates that all equity holders, not only the "Founders," will receive Privco shares and options.

Response: Paragraphs 2 and 4 of Exhibit 10.42 refer to "current equityholders" that are signatories to the letter agreement. Exhibit 10.42 is addressed "To: Current Equityholders" and implies those persons signing the agreement. In accordance with applicable contract and corporate laws, it cannot bind parties that have not executed such agreement. Therefore, it applies to the "Founders" not all equity holders.

40. If your private placement memorandum has already been modified, as noted in your response to prior comment 67, then please disclose the date on which it was modified and tell us why exhibit 10.42 was filed separately rather than as part of exhibit 10.31.

Response: This paragraph regarding modifications to the private placement memorandum has been deleted. The Company believes that such disclosure only adds confusion to the discussion of the restructuring agreement.

Exhibit 10.42 was not an attachment to the Subscription Agreement (Exhibit 10.31) and therefore was not included.

41. As a related matter, please confirm our understanding of your response to prior comment 67 that you and the "investors" entered into the restructuring agreement and agreed to modify the private placement memorandum prior to the date on which this registration statement was filed. Generally, it is inconsistent with Section 5 of the Securities Act to renegotiate the terms of a private placement while the related shares are registered for resale.

Response: The restructuring agreement is actually a unilateral acknowledgement executed only by the "Founders". No PPM investor executed the agreement. The modifications to the PPM were made before the date on which the registration statement was filed. The Company has not renegotiated any terms of the private placement after the registration statement was filed.

Directors, Executive Officers and Control Persons, page 58

42. We note your response to prior comment 18. Please disclose the information required by Item 401(c) of Regulation S-K with respect to Mr. Sachs as well as the "two independent FDA consultants" and the "third party firm" mentioned on page 40. Please also tell us why you have not disclosed the information required by Item 401 with respect to Mr. Dauwalter and Ms. Doerfert.

Response: Item 401(c) applies to employees of the Company. Neither Mr. Sachs nor the two independent FDA consultants, nor the third party firm on page 40 are employees. Furthermore, Mr. Dauwalter is not a key employee that require disclosure under Item 401.

Medical Advisory Board, page 60

43. Regarding your response to prior comment 68:

- **We note the numerous claims you make regarding the business experience of your medical advisory board. For example; you state that Dr. Leonard is an "outstanding…world-wide medical pioneer" and that he has "distinguished himself in a great number of areas too numerous to detail." You also indicate that Mr. Feroe and Ms. Gorman were "instrumental" in gaining acceptance of new technologies and changing existing guidelines. Please revise to present a more balanced picture of the qualifications of the members of your medical advisory board;**
- **We note your disclosure regarding the awards previously granted to Dr. Leonard. Please tell us, with a view toward disclosure, how recipients of those awards are chosen and whether others received the awards in addition to Dr. Leonard; and**
- **Please expand the first paragraph under this heading to clarify how this board assists you in "understanding the needs of [y]our market and ways to better serve that market,' in light of the fact that you have not yet begun marketing or selling your product.**

Response: We have revised this disclosure accordingly.

Executive Compensation, page 62

44. Please update your disclosures required by Item 402 of Regulation S-K to include compensation information for your last completed fiscal year.

Response: The document has been updated to provide compensation of Executive Officers for 2007 and 2008.

Summary Compensation Table; page 62

45. Please tell us how your responses to prior comments 70 and 72 considers the 75% salary rates you paid in 2007, as noted on page 22.

Response: The summary compensation table discloses the amount earned during 2007 even though not all of the earned compensation was paid due to a shortage of cash. The executives subsequently agreed to accept a combination of stock options and a future payment based upon the Company reaching certain milestones as payment for the unpaid amounts in 2007.

Corporate Governance, page 68

46. We note your response to prior comment 75. Since it is unclear from your response how your conclusion as to Mr. Morawetz's independence considers the nature of your relationship with him disclosed on page 69, we reissue the last sentence of prior comment 75.

Response: Mr. Morawetz performed certain consulting services for the Company from 2002 through August 2006 and the Company has accrued those expenses but, to date, they have not been paid. From August 2006 through the present Mr. Morawetz is not performing consulting services and receives no current compensation from the Company. Consequently, Mr. Morawetz is an independent director.

Certain Relationships and Related Transactions, page 69

47. We note from your response to prior comment 35 and disclosure on page 30 that 1,920,000 shares were to be allocated to your "existing shareholders." Please tell us the identities of these individuals and the number of shares they received. If your affiliates and principal stockholders received shares, disclose the information required by Item 404 of Regulation S-K with respect to that transaction, including the purpose of the share allocation.

Response: We have revised this language to clarify any ambiguity. Affiliates and principal shareholders received no additional shares as a result of the reverse stock split. The existing shareholders were entitled to 1,920,000 shares including shares outstanding and shares to be issued upon exercise or stock options and warrants. Due to miscalculation of the outstanding number of shares on a fully-diluted basis prior to the initial reverse stock split, the total of shares, options and warrants following the split was in excess of 1,920,000. Therefore, the board authorized a subsequent reverse split resulting in a combined ratio, from both splits, of 1.67505 to 1 in order to bring the total in compliance. The existing shareholders are also listed as founders.

48. Regarding your response to prior comment 77:

- **Please reconcile your disclosures in the second and third paragraphs regarding whether Mr. Morawetz agreed to waive or reduce the outstanding fees you owe;**
- **Disclose the amount you agreed to pay Mr. Morawetz pursuant to the "oral understanding";**
- **Clarify whether Mr. Morawetz's efforts at contacting distributors and investors were successful. Also clarify the nature of the "general counsel services" he provided; and**

- **Please include as an exhibit the summary of the oral agreement when it is approved by the parties.**

Response: The Company and Mr. Morawetz have not agreed to any amount of reduced fees. Reference to a verbal discussion or agreement have been removed.

49. We reissue prior comment 78, given the continued reference to Mr. Morawetz in the third paragraph of this section.

Response: The Company and Mr. Morawetz have not agreed to any amount of reduced fees. Reference to a verbal discussion or agreement have been removed.

50. We note your responses to prior comments 79 and 80:

- **It appears from your disclosure that your affiliates will receive cash bonuses and have their option vesting accelerate upon receipt of $3 million in funding. Please revise to disclose on an individual and aggregate basis the dollar amounts and number of shares to be received, including whether the unpaid, accrued salaries will be paid from such funds;**
- **Revise your table on page 76 to disclose the number of unexercisable stock options currently held by your officers, directors and principal stockholders;**
- **Update your disclosure to discuss whether salaries were paid or accrued from June 2008 to present.**

Response: Mr. Davidson and Mr. Rice agreed to waive payment of certain unpaid salary in return for an understanding that they would be paid a cash bonus of $23,000 and $46,000, respectively, upon raising an additional $3 million subsequent to the October 2008 financing. In addition, they would each receive a stock option, with immediate vesting, to purchase 80,000 and 160,000 shares, repectively, of common stock at a price of $.35 per share. The options have not been issued and are, therefore, not subject to acceleration. The option table on page 76 includes all options outstanding including options granted to officers, directors and principal shareholders.

51. Regarding your response to prior comment 82, please:

- **Tell us why you did not include Erick Richardson in your disclosure on page 69, given your disclosure on page 76 regarding the number of shares he beneficially owns;**

- **Reconcile your disclosure here that James Taylor IV acquired more than 5% of your shares with your disclosure on page 76 that James Taylor III holds more than 5% of your shares; and**
- **Tell us, with a view toward disclosure, why David Dauwalter is not listed as a 5% shareholder here and on page 76, given the amount of his investment in you at the time he commenced his employment that is mentioned in exhibit 10.37.**

Response: The disclosure on page 69 has been updated to include Erick Richardson as a 5% holder. Page 76 has been updated to indicate that James Taylor IV holds over 5% of our stock. The beneficial ownership table erroneously referred to him as James Taylor III. David Dauwalter is the adult child of James Dauwalter, a 5% holder, but is not a dependent or living in the same household. We did not, therefore, combine their shares for purposes of calculating the percentage of stock ownership.

52. We note your response to prior comment 83. We reissue the first bullet point of that comment because it is unclear where you provided the disclosure requested by that comment.

Response: Mr. Ruwe is included on page 69 as having acquired over 5% ownership in the Company and also on page 71 as a selling shareholder. Mr. Ruwe acquired his common shares and his warrant as part of the October 2008 financing.

Selling Security Holders, page 70

53. It is unclear from your response to prior comment 85 how you considered the referral services provided by Mr. Roll, as noted on page II-6. Therefore, we reissue the comment. Also tell us how your response to prior comment 85 accounts for the consulting relationship mentioned in the fourth bullet on page 70 and on page II-5.

Response: Mr. Roll acted as a consultant in connection with the October 2008 financing and was awarded a warrant to buy 11,429 shares of common stock at $.46 per share as his sole compensation. The Company and Mr. Roll have no ongoing relationship.

54. We note your response to prior comment 86. In addition to disclosing the general terms of the transactions in which the selling security holders acquired the shares, please indicate by footnote which selling security holders participated in each of the transactions noted in the bullet points on page 70.

Response: The section has been updated to reflect this information.

55. We note your response to prior comment 86. In addition to disclosing the general terms of the transactions in which the selling security holders acquired the shares, please indicate by footnote which selling security holders participated in each of the transactions noted in the bullet points on page 70.

Response: The section has been updated to reflect this information.

56. We note your response to prior comment 89. However, your disclosure continues to appear inconsistent regarding the number f shares underlying warrants that are held by Mr. Roll. For example, you disclose on page 70 that Mr. Roll holds warrants to purchase 40,001 shares but your disclosure on pages 31, F-10 and II-6 indicates that Mr. Roll holds warrants to purchase only 11,429 shares. Therefore, we reissue prior comment 89.

Response: Mr. Roll participated in the October 2008 financing both as an Investor, as defined, and as a Finder, as defined. As an Investor he purchased 28,572 shares for $.35 per share with a warrant to purchase an additional 28,572 shares for $.46. In addition he earned a warrant, as a Finder, to purchase 11,429 shares at $.42.

57. Please reconcile your disclosures in the first bullet and in notes 11-17 regarding the aggregate number of shares underlying the convertible note.

Response: This section updated to include this reference.

Plan of Distribution, page 74

58. Please revise your disclosure here consistent with your response to prior comment 3.

Response: This section has been updated.

Security Ownership of Certain Beneficial Owners and Management, page 76

59. Please update your disclosure here to be of the most recent practicable date.

Response: The share ownership date has been changed to February 1, 2009.

60. We note your response to prior comment 90; however, your disclosure on pages 71 and 77 continues to disclose different numbers of shares underlying warrants held by James Taylor. Additionally, the number of common shares held by RP Capital, as disclosed in notes 12 and 13, differs from the number of common shares it holds as disclosed on page 71. Specifically, subtracting your third column from your second column does not equal 142,857. Therefore, we reissue prior comment 90.

Response: The correct number of shares for Mr. Taylor is 571,429, and he holds a warrant to purchase an equivalent number of shares. Page 77 has been updated to reflect this.

Warrants and Convertible Notes, page 78

61. We note your response to prior comment 92. However, to continues to be unclear how your July 2007 convertible note financing relates to your October 2008 financing, given your disclosure that the October 2008 financing only involved common stock and warrants. For example, it is unclear why the monetary penalties noted on page 79 will be paid *pro rata* to investors in your October 2008 financing and how the registration rights relate to the October 2008 financing. Please revise. Also identify the "seven holders" who acquired and hold the convertible notes.

Response: The convertible note financing that was closed in July 2007 was considered a bridge loan to allow sufficient time to arrange a subsequent financing which was finalized in October 2008. The notes are convertible to common shares at $.27 per share and each noteholder also received a warrant for an equivalent number of shares with an exercise price of $.42 per share. The shares underlying the convertible debt as well as the shares underlying the warrants were awarded registration rights and they will participate in penalties, if any, for a delay in registration of the Company's common shares along with Investors who purchased common shares, and were awarded warrants to purchase shares, and Finders who were awarded shares, warrants or both.

Legal Matters and Interests of Named Experts, page 86

62. We note your response to prior comment 93. Please

- **Disclose the aggregate number for shares beneficially owned by all affiliates of Richardson & Patel and registered for resale, as requested by that comment;**

Response: We have disclosed the aggregate number of shares beneficially owned by all affiliates.

- **Reconcile the number of shares held by the law firm and its affiliates that are disclosed here with the numbers disclosed in the selling security holders' table. We note, for example, that your disclosure here regarding the number of shares held and offered by Erick Richardson, Nimish Patel and RP Capital differs from the number of shares disclosed in that table;**

- **Ensure that your disclosure here includes all interests of the law firm and its affiliates. For example, we note the debt you owe to the law firm that is mentioned on page 23; and**

- **Provide us your assessment of the materiality of any risks resulting from the interests of the law firm and its affiliates.**

Response: We do not believe that there are any material risks from the interests of the law firm and its affiliates and us. Richardson & Patel LLP have been retained for the preparation of our Registration Statement and our private placement. We have also retained legal counsel of Larkin and Hoffman who advise us on corporate law and securities laws matters from time to time.

Financial Statements

63. Please update the financial statements when required by Rule 8-08 of Regulation S-X.

Response: We believe our financial statements are valid under Regulation S-X but we will update the financial statements when they are no longer valid.

64. We re-issue prior comment 94. Please have your auditor tell us why they have asked that their consent appear in the body of the filing on page F-2. The consent should appear as an appropriately numbered exhibit.

Response: We have included the current auditor consent as Exhibit 23 and deleted it from page F-2.

Interim Financial Statements for the Nine Months Ended September 30, 2008

65. We re-issue prior comment 96. Please revise to remove the label "audited" from the top of the balance sheet, statement of operations and cash flows as of and for the year ended December 31, 2997. Since full audited financial statements, including an audit opinion, are not included in the interim presentation, amounts derived from the audited financial statements should not be labeled "audited".

Response: The financial statements have been revised accordingly.

Statement of Stockholders' Equity (Deficit), page F-5

66. Various lines items on the statement indicate that shares were issued at $1.67 per share. However, the shares do not appear to be recorded based on that assigned value. For instance, we see an issuance in 2006 of 86,869 shares for "vendor contractual consideration" where the disclosure indicates that the shares were valued at $1.67 per share, but the amount recorded totals only $1,451, which does not appear to reflect the $1.67 per share value. Please tell us and clearly disclose how share issuance were accounted for and valued. Demonstrate to us that your accounting is appropriate in GAAP.

Response: The Statement of Stockholder's Equity (Deficit) has been updated to reflect the correct price per share, on a reverse split adjusted basis, for each issuance of stock from inception through September 30, 2008.

67. Please remove the captions "un-audited" from the sub- totals for all annuals periods.

Response: The statements have been updated.

Statements of Cash Flows, page F-6

68. Please provide a cash flow statement for the nine months ended September 30, 2007. Please refer to Article 8 of Regulation S-X.

Response: The nine months ended September 30, 2007 statement of cash flows is now included in the document.

69. We reference prior comment 100 and see the footnote disclosure added to the bottom of the statement of cash flows regarding the stock issuances during 2008. Please expand the notes to the financial statements to present a full discussion of the private placements and related stock and warrant issuances consummated in 2008. This discussion should (1) describe all significant terms and provisions of the private placements and equity instruments issued and (2) provide a clear and complete discussion of the accounting applied. As a related matter, if you entered into registration right agreements in connection with the 2008 private placements, the notes to financial statements should include the disclosure required by FSP EITF 00-19-2.

Response: The proceeds from issuance of stock in 2008 is included in the statements of cash flow and the notes describe the terms.

70. Please tell us why cash as of December 31, 2007 on the statement of cash flows does not agree with cash at December 31, 2007 on the face of the balance sheet. In this regard, it appears that the summation of the total net cash provided by financing activities for this period is not mathematically correct. Please revise as necessary.

Response: The statements of cash flows have been corrected to reconcile with the balance sheet.

Note 1. Patent and Intellectual Property, page F-7

71. We refer to the disclosure added in response to prior comment 102. We see that you paid Mr. Ryan $75,000 and 150,000 warrants in exchange for the exclusive assignment of the patent. Disclose when this transaction took place and clarify whether the transaction is reflected in the accompanying financial statements. Please also disclose how you are accounting for the value of the cash and warrants.

Response: This transaction was finalized in June 2008. The total amount paid and payable, in cash as well the value of the warrant, to Mr. Ryan and his affiliated company is being charged to product development expense.

72. As a related matter, you state that you assigned a fair value of $52,500 to the warrants based on the per share price of the October 2008 financing. It does not appear that you have used an option pricing model, such as the Black-Scholes Merton model, to determine the fair value of the warrants. Please tell us why your valuation method is appropriate in GAAP, including how your valuation method considers the guidance from SFAS 123 (R). Also tell us how the disclosure is consistent with the response to prior comment 118. In that response you informed us that warrants are valued based on the Black-Scholes Merton model.

Response: $52,500 was the stipulated value in the agreement for the warrants but is not based upon the Black-Scholes model. We have determined that the Black-Scholes model computes a value of $16,050.00 based upon our assumptions of volatility, risk free interest rate, expected dividend rate and estimate life of the warrant, and we have included that amount in expense during 2008 because the warrant vested immediately.

Note 3 Stock Options and Warrants, page F-8

73. We refer to the first sentence under the table appearing at the top of page F-9. Based on the weighted average remaining lives disclosed in the referenced table, your statement that options expire through 2013 does not appear accurate. Please revise or advise.

Response: The table has been corrected to show an expiration through June 2018.

Stock, Stock Options and Warrants Granted by the Company, page F-9

74. Please revise the disclosure so that the narratives describing the various share, warrant and option issuances can be readily reconciled with the transactions disclosed on the face of the statements of stockholders' equity and statements of cash flows and with issuances.

Response: The warrant and option table has been updated.

75. Refer to your responses to prior comments 103, 110 and 111. Please revise to disclose how each issuance was valued and accounted for, including the model(s) and all significant assumptions. In that regard, please disclose the fair value assigned to each issuance and how that amount was recorded in the financial statements. Pursuant to SFAS 7, the disclosure should also describe management's basis for the fair value assigned in non-cash transactions. Refer to SFAS 7 and SFAS 123(R).

Response: This section was updated to satisfy these requirements.

Stock and Stock options, page F-10

76. We refer to the revisions in response to comment 104. You disclose that 543,292 options priced at $0.01 per share were issued to Mr. Davidson. You also disclose that on September 12, 2008 the Board ratified the issuance and that the options vest immediately; however, the options are recorded by footnote only in the financial statements and *will be* recorded as compensation expense in the operating statement. Please tell us the value assigned to the options and why the amounts have not been recorded as compensation at September 30, 2008. Your response should fully explain how the accounting is appropriate under SFAS 123(R).

Response: The options granted to Mr. Davidson were assigned a value of $.342 per share or a total value of $185,806. The options vested immediately but have a 10 year legal term and we, therefore assigned a 5 year life to the grant for Black-Scholes-Merton valuation purposes. We used a 4% risk-free interest rate, a 0% expected dividend rate and a 45% expected volatility as additional inputs to the model. This amount is included in compensation expense for the nine-month period ended September 30, 2008 and has also been included in the Executive Compensation table for 2008 in the current updated version of the S-1.

Other Securities For Issuance Upon Certain Contingencies, page F-12

77. We reference prior comment 19 and the additional disclosure included in response to that comment on page F-12 for contingent stock and option issuances. Please revise to disclose your accounting for each of the contingent issuances. In that regard, your disclosure should be sufficiently detailed so that it is clear that you are appropriately accounting for the agreements. Also, disclose whether you have recognized any compensation for these issuances or, if not, when you expect to recognize compensation. Please refer to SFAS 123(R) for issuances to employees and EITF Issue No. 96-18 for issuances to non-employees.

Response: The language has been modified to clarify that the stock options have not been granted and will not be granted until such time as the Company raises a minimum of $3 million in additional equity subsequent to the October 2008 financing. At such time the options are granted they will be valued using the Black-Scholes-Merton valuation model and expensed over the vesting period.

78. We see that you entered into an oral agreement with director Peter Morawetz for services. You disclose that fees owed to him total $84,963, yet no amounts have been expensed or accrued because there is an oral understanding that "the amount to be paid will be less." Please tell us why you should not accrue and expense the amount owed to Mr. Morawetz. We refer to SFAS 140 which states that a liability is not extinguished until (a) the debtor pays the creditor and is relieved of its obligation for the liability or (b) the debtor is legally released from being the primary obligor under the liability, either judicially or by the creditor.

Response: The document has been updated to indicate that no formal agreement exists between Mr. Morawetz and the Company as to the timing and amount of these payments, if any. Upon reaching agreement on the amounts the Company will record the expense.

79. We reference the paragraph at the top of page F-13. Please tell us what this paragraph is intended to convey and how it makes meaningful accounting disclosure. In that regard, please explain how the statements are consistent with the accounting guidance on the valuation of and accounting for stock-based compensation as set forth in SFAS 123(R) and related literature.

Response: The language has been updated to clarify that valuation in this instance is a negotiated amount for purposes of establishing the number and price per share of the warrants in connection with the financing. This is not to be confused with grant date fair value as defined in SFAS 123R.

Note 6. Long-term Debt, page F-14

80. We see that certain of your debt are convertible. Please revise to label the debt as convertible on the face of your balance sheet.

Response:

The balance sheet label has been updated.

81. As you disclose that notes totaling $284,000 are "passed their due dates and could be called by the holders," please tell us why only $186,000 is classified as current in the balance sheet. Explain the basis in GAAP for your conclusion.

Response: The balance sheet has been updated to show the convertible debt on a separate line and to show the delinquent balances as current. The delinquent amount is actually $180,000.

82. We note the disclosure that the $170,000 note contains penalties until the registration statement is declared effective by the SEC. Disclose whether you have accrued any liability under the registration rights agreement and provide an accounting policy disclosure. Refer to FSP EITF 00-19-2.

Response: We have not accrued any expense related to a delay in the effective date of registration because we are not late as of the present date. The penalties begin to accrue 180 days after August 31, 2008, or beginning March 31, 2009.

Audited Financial Statements for the year ended December 31, 2007

83. We re-issue prior comment 108. We see that you are a development stage business with recurring losses, operating cash flow deficits and no revenues. Please have your auditors tell us how they evaluated the requirements of AU Section 341 in concluding that the audit report should not include a paragraph regarding going concern with accompanying footnote disclosure as specified in the referenced guidance. While we see your response it fails to address the requirements of the cited guidance. Also have your auditor reconcile their view with the management's disclosure on page 3 that various matters "raise substantial doubt about our ability to continue as a going concern."

Response: The response from our CPA firm is as follows: Private placement funds were received after 12/31/07 year end in the amount of $1,065,000, which we evaluated that this would cover the going concern issue until 12/31/08. The risk factors have been updated to eliminate reference to a going concern qualification.

Balance Sheet, page F-18

84. Please revise so that the numbers of outstanding shares as of December 31, 2007 and 2006 agree to the corresponding numbers from the statement of stockholders' equity (deficit).

Response:Balance Sheet has been updated.

85. We reissue prior comment 109. We no not see where you have labeled your notes payable and long-term debt as "convertible," as applicable. Please advise.

Response: Balance Sheet has been updated.

Statement of Stockholders' Equity (Deficit), page F-20

86. Please remove the captions "un-audited" from the sub-totals for all applicable periods.

Response: Statement has been updated.

87. We re-issue to prior comment 111. Please also revise to include a discussion in the footnotes to the audited financial statements of shares and equity instruments issued during all periods presented. In that regard describe the individual transactions, consideration received by the Company and how the equity instruments issued in those transactions were accounted for and valued. Refer to SFAS 7, SFAS 123(R), and SFAS 129. The expanded disclosure should be readily reconcilable to disclosure in the statement of stockholders' equity (deficit) and statement of cash flows. While we see your response, the footnotes to the audited financial statements should present all relevant required disclosure.

Response: We have included an additional table to recap the grants of options and warrants by date of grant with the exercise price indicated.

Statement of Cash Flows, page F-21

88. We see that you revised your statement of cash flows in response to prior comment 113 and that this changed the total cash used in operating activities and provided by financing activities for the year ended December 31, 2007 and inception to date. Please label the statement of cash flows as "restated" and provide appropriate footnote disclosure. Refer to paragraph 26 of SFAS 154.

Response: The prior statement of cash flows was submitted in error as it did not agree with our audited financial statements. The audited statements of cash flows had the cash flows from notes payable properly classified as a source of cash provided by financing activities. SFAS 154 would not be applicable in this case since our official audited statements were correct.

Note 1. Summary of Significant Accounting Policies, page F-22

Intangible Assets, page F-22

89. We do not see where you have included any additional disclosure about your policy for patent costs in response to prior comment 114. Please revise.

Response: We added language to further explain our policy on capitalizing patent costs.

Research and Development, page F-22

90. Please reconcile the numerical disclosures of the amounts of research and development expense in 2007 and 2006 as presented in this footnote with the corresponding numerical disclosures of the amounts of research and development expense in 2007 and 2006 as presented in MD&A on page 23.

Response: We clarified our policy on expensing research and development expense.

91. We reference the statement that as of December 31, 2007 you have "accrued $100,000 for unbilled product development work since 2002." However, we see that total research and development expense for the year ended December 31, 2007 is only $1,434. Please disclose the actual date of the accrual. Please also clarify disclosure in the "research and development" discussions on pages 22 and 23 of MD&A. From those disclosures it is not clear whether the $100,000 was accrued in 2006 or 2008.

Response: The $100,000 in product development cost was recorded in 2008 in conjunction with entering into an agreement with the inventor for payment of that amount by June 30, 2009.

Note 3. Stock Options and Warrants, page F-23

92. Please tell us whether the numerical disclosures of vested options and warrants described in the sentence appearing directly under the stock option/warrant roll-forward were updated for the stock splits.

Response: Options and warrants are reflected on a reverse-split adjusted basis.

93. We re-issue prior comment 116. You disclose that you use the calculated value method to value stock options. Under SFAS123(R) that method is defined as a measure of the value of a share option or similar instrument determined by substituting the historical volatility of an appropriate industry sector index for the expected volatility of an appropriate industry sector index for the expected volatility of a nonpublic entity's share price in an option-pricing model. Your disclosure suggests that you did not apply a measure of volatility since that measure is zero. Tell us why your volatility assumption is appropriate under the guidance set forth in paragraphs A43 through A48 of SFAS123(R). Please also refer to the guidance about volatility set forth in SAB Topic 14. Your response should fully demonstrate that you have appropriately applied SFAS123(R) in establishing a volatility assumption.

Response: This section has been updated to clarify that we are using the grant date fair value method as specified in SFAS 123R and we are using an expected volatility of 45%.

94. We re-issue prior comment 17. SFAS123(R) calls for numerous disclosures as set forth in paragraphs A240 and A241 that are required for both employee and non-employee transactions. Also note that you should comply with all disclosures applicable to a public company as a result of your registration statement. Your disclosures do not appear compete under the cited guidance. Please appropriately revise.

Response: The disclosure has been revised.

95. We re-issue prior comment 118. Please revise to disclose how you value warrants and to provide all relevant valuation disclosures about warrants required by SFAS123-R. Refer to paragraph 64 and Paragraphs A240 and A241 of the Statement.

Response: Warrants are valued using the Black-Scholes-Merton valuation model and either expensed over the service period, treated as equity if granted in connection with issuance of common stock, or treated as a debt discount and amortized as additional interest expense if issued in combination with debt. This section has been updated to clarify this.

96. We reissue prior comment 120. Please note that under the definitions in the Glossary to SFAS123(R) you are no longer a non-public entity as of the filing date of the Form-S-1. Accordingly, any share options or similar instruments issued on or after that date should be valued and accounted for under the guidance applicable to public companies under SFAS123(R). That is, you should not use the calculated value method for instruments issued or modified on or after November 12, 2008. Refer to SAB Topic 14 for further guidance.

Response: We are using the grant date fair value method as specified in SFAS 123R, not the calculated value method.

Part II

Item 26. Recent Sales of Unregistered Securities, page II-4

97. We note your response to prior comment 123. We reissue that comment because it appears you have provided the information required by Item 701 of Regulation S-K with respect to your transaction with Mr. Sachs that is noted on page 33 and the options granted to your executives officers, as disclosed on page 32.

Response: This section has been updated.

98. We reissue prior comment 125, given the continued inconsistencies regarding the number of common shares outstanding disclosed on pages 1 and F-5. Also tell us, with a view toward disclosure, how your balance sheet as of September 30, 2008 on page F-3 states that you have 8,180,832 shares outstanding, given that your disclosure that the recent financing did not close until the end of October, 2008.

Response: The correct number of shares outstanding as of September 30, 2008 was 8,130,841 and page 1 and F-5 are now consistent. Even though we refer to the financing as the October 2008 financing all the shares were issued as of September 30, 2008.

Item 27. Exhibits, page II-7

99. We note your response to prior comments 128 and 130. We reissue the first sentence of prior comments 128 and 130. We reissue the first sentence of prior comment 130 because it appears that exhibits 10.43 and 10.44 both omit Schedule A.

Response: We repeat our response to prior comment 130. There was no Schedule A to the registration rights agreements and therefore Schedule A is not included with the exhibits.

Item 28. Undertakings, page II-8

100. We note your response to prior comment 126. However, your filing still appears to lack the first clause of Item 512(a)(5). It also appears that your filing continues to lack the undertaking required by Item 512(a)(6) of Regulation S-K. Therefore, we reissue prior comment 126.

Response: We have added the first clause of Item 512(a)(5) to the undertaking. However Item 512(a)(6) relates to "primary offerings". This is a resale offering. Therefore we believe that 512(a)(6) does not apply.

Signatures, page II-10

101. We note your response to prior comment 127. Please reconcile your disclosures on pages 58 and 59 and here regarding the identity of your chief executive officer.

Response: The signatures page has been corrected to indicate Kevin R Davidson as our Principal Executive Officer and our Principal Financial Officer.

Exhibit 3.1

102. We note your response to prior comment 131; however, it appears that you have not filed an amended copy of your articles of incorporation with this amendment. Please file a complete copy of your articles, as previously requested.

Response: We have attached the articles of amendment as Exhibit 3.3 to this amendment.

* * * * *

We hope that the information contained in this letter satisfactorily addresses the comments by the Staff. Please do not hesitate to contact the undersigned by telephone at (310) 208-1182 extension 723, or by facsimile at (310) 208-1154.

Very truly yours,

RICHARDSON & PATEL, LLP

Ryan Hong, Esq.