BIOLARGO, INC.
Form 10KSB/A
March 10, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1 to

FORM 10-KSB

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended December 31, 2006

OR

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

For the Transition Period from to

Commission File Number: 000-19709

BIOLARGO, INC.

(Name of Small Business Issuer in its Charter)

Delaware	**65-0159115**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

2603 Main Street, Suite 1155, Irvine, CA 92614

(Address of principal executive offices, Zip Code)

Issuer s telephone number, including area code: (949) 235-8062

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, $0.00067 par value

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) been subject to such filing requirements for the past 90 days. Yes x No ¨

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Issuer s revenue for its most recent fiscal year: $ -0-

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of May 1, 2007 was $8,465,212.

The number of shares outstanding of the issuer s class of common equity as of May 1, 2007 was 39,355,166.

Transitional Small Business Disclosure Format (check one): Yes ¨ No x

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GENERAL NOTE

THIS AMENDMENT NO. 1 TO THE ANNUAL REPORT ON FORM 10-KSB FOR THE YEAR ENDED DECEMBER 31, 2006, OF BIOLARGO, INC. (THE COMPANY) IS BEING FILED FOR THE FOLLOWING PURPOSES: (1) TO RECALCULATE THE VALUE OF CERTAIN WARRANTS ISSUED BY THE COMPANY AS PART OF CERTAIN PRIVATE OFFERINGS OF THE COMPANY S SECURITIES WHICH GIVES RISE TO ADDITIONAL INTEREST EXPENSE; AND (2) TO ELIMINATE PRO FORMA FINANCIAL INFORMATION PREVIOUSLY PRESENTED, BASED ON THE COMPANY S DETERMINATION THAT SUCH PRESENTATION IS NOT REQUIRED.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL NOTE REGARDING REFERENCES TO COMMON STOCK

On March 19, 2007, BioLargo, Inc., formerly known as NuWay Medical, Inc., a Delaware corporation (BioLargo), completed a 1-for-25 reverse split of its common stock outstanding as of the close of business on such date (the Reverse Split). Unless specifically stated otherwise, all references in this Annual Report on Form 10-KSB (the Annual Report) to BioLargo s common stock are stated on a post-reverse split basis.

USE OF FORWARD LOOKING STATEMENTS IN THIS REPORT

This Annual Report contains forward-looking statements. These forward-looking statements include, but are not limited to, predictions regarding:

- our business plan;
- the commercial viability of our technology and products incorporating our technology;
- the effects of competitive factors on our technology and products incorporating our technology;
- expenses we will incur in operating our business;
- our liquidity and sufficiency of existing cash;
- the success of our financing plans; and
- the outcome of pending or threatened litigation.

You can identify these and other forward-looking statements by the use of words such as may , will , expects , anticipates , believes , estimate continues , or the negative of such terms, or other comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth below under the heading Risk Factors . All forward-looking statements included in this document are based on information available to us on the date hereof. We assume no obligation to update any forward-looking statements.

The information contained in this Annual Report is as of December 31, 2006, unless expressly stated otherwise.

As used in this Report, the term Company refers to BioLargo and its wholly-owned subsidiaries, BioLargo Life Technologies, Inc., a California corporation, which is sometimes referred to separately as BLTI, and NuWay Sports, LLC, a California limited liability company.

Introduction

By leveraging our suite of patented and patent-pending intellectual property, which we refer to as the BioLargo technology, our business strategy is to harness and deliver nature s best disinfectant iodine in a safe, efficient, environmentally sensitive and cost-effective manner. Our BioLargo

technology works by combining minerals with water from any source and delivering molecular iodine on demand, in controlled dosages, in order to balance efficacy of disinfectant performance with concerns about toxicity. When our BioLargo technology is incorporated in absorbent products, they also experience increased holding power and may experience increased absorption.

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Our BioLargo technology creates a value-added proposition to existing products and can be used to create new products. Our BioLargo technology can be incorporated into absorbents, washes and sprays, and into various products and applications across multiple industry verticals. Our BioLargo technology has the potential to replace other disinfectants such as chlorines and bromines, which may be harmful to the environment. Our business model is to license our BioLargo technology to others, rather than to manufacture our own products.

We have been engaged in the research and product development of the BioLargo technology since July 2005, when we entered into a letter of intent with the inventor of the BioLargo technology, Kenneth Reay Code, who is now a director, our Chief Technology Officer and our principal stockholder. Between December 2006 and April 2007, we operated under a Marketing and Licensing Agreement with Mr. Code and a company he controls, IOWC Technologies, Inc. (IOWC). In April 2007, we completed the acquisition of the BioLargo technology from IOWC.

Our current focus is to develop opportunities to license our BioLargo technology to others in various vertical markets. We do not currently intend to manufacture our own products, although we will contract with others to manufacture the chemicals and minerals that comprise the BioLargo technology.

The Company had no continuing business operations as of December 31, 2006 and until the completion of the acquisition of the BioLargo technology on April 30, 2007, and operated as a public shell prior to such date.

The Company was initially organized as Repossession Auction, Inc. under the laws of the State of Florida in 1989. In 1991, the Company merged into a Delaware corporation bearing the same name. In 1994, the Company s name was changed to Latin American Casinos, Inc. to reflect its focus on the gaming and casino business in South and Central America, and in 2001 the Company changed its name to NuWay Energy, Inc. to reflect its new emphasis on the oil and gas development industry. During October 2002, the Company s name was changed to NuWay Medical, Inc. coincident with the divestiture of its non-medical assets and the retention of new management. In March 2007, in connection with the approval by our stockholders of the acquisition of the BioLargo technology, we changed our name to BioLargo, Inc.

The Company s executive offices are located at 2603 Main Street, Suite 1155, Irvine, California 92614 and its telephone number at that location is (949) 235-8062. Our website is www.biolargo.com. The information on our website is not, and shall not be deemed to be, a part of this Report or incorporated by reference into this or any other filing we make with the Securities and Exchange Commission (the SEC).

Recent Developments

On April 30, 2007, we completed the acquisition of the BioLargo technology. For more detailed information, please see Transactions Involving the BioLargo Technology and Our Business below.

At such time, we ceased to be a shell corporation. For more detailed information, please see Item 8B, Other Information below.

In March 2007, our stockholders approved a name change, the Reverse Split and a recapitalization of our stock. For more detailed information, please see Recent Corporate Developments below.

Transactions Involving the BioLargo Technology

Leading up to the completion of the acquisition of the BioLargo technology in April 2007, the Company engaged in several transactions with Mr. Code and IOWC. Mr. Code is the sole stockholder and sole director of IOWC.

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Letter of Intent

In July 2005, the Company entered into a letter of intent (LOI) with IOWC. The LOI set out the terms for the acquisition of certain assets of IOWC consisting of certain intellectual property, including two United States patent and two license and/or distributor agreements pursuant to which IOWC had licensed certain of its technologies for use in products designed for distribution in the food, medical and biohazardous material transportation industries. In connection with the transactions contemplated by the LOI, the Company agreed to issue up to 51% of its common stock to IOWC. The LOI provided that the transactions contemplated by the LOI would be completed pursuant to the terms of an asset purchase agreement as well as a research and development agreement. In addition, the LOI required certain stockholders approvals as a condition to the closing of the transactions contemplated by the LOI including approval of the issuance of the shares of the Company s common stock to IOWC, a reverse stock split and an increase in the authorized capital stock of the Company.

As the parties worked toward preparing the documentation called for by LOI and as the Company began to prepare the proxy materials needed for its stockholders meeting, it became increasingly clear to the parties that the length of time and the costs involved in preparing documentation for a stockholders meeting would likely jeopardize the chances that the transactions contemplated by the LOI could be completed in a manner benefiting both parties. Accordingly, in late 2005 the parties began to explore alternative strategies that would enable them to begin to realize the benefits of the transactions contemplated by the LOI while at the same time allow the Company to call a meeting of its stockholders for the purpose of approving the issuance of shares of its common stock in connection with the acquisition of the BioLargo technology.

Marketing and Licensing Agreement

In furtherance of the proposed transactions with IOWC, on December 31, 2005, the Company entered into the Marketing and Licensing Agreement (the M&L Agreement) with IOWC and Mr. Code.

Pursuant to the M&L Agreement, BLTI acquired certain rights to develop, market, sell and distribute products that were developed, and were then in development, by IOWC relating to the BioLargo technology.

Licenses Granted to BLTI. Pursuant to the terms of the M&L Agreement, IOWC granted to BLTI a license, with respect to the BioLargo technology, to further develop the technology, to further develop existing and new products based on that technology, and to produce, market, sell and distribute any such products, through its own means, or by contract or assignment to third parties or otherwise, including without limitation:

Technology Development Rights. Exclusive worldwide right to expand and improve upon the existing BioLargo technology, to conduct research and development activities based on the BioLargo technology, and to contract with third parties for such research and development activities; and any improvements on the BioLargo technology, or any new technology resulting such efforts of BLTI, shall be owned solely by BLTI.

Product Development Rights. Exclusive worldwide right to expand and improve upon the existing products incorporating the BioLargo technology, to conduct research and development activities to create new products for market, and to contract with third parties for such research and development activities. Any new products created by BLTI resulting from these efforts shall be owned solely by BLTI.

Marketing Rights. Exclusive right to market, advertise, and promote the BioLargo technology in any market and in any manner it deems commercially reasonable.

Manufacturing Rights. A transferable, worldwide exclusive right to manufacture, or have manufactured, products incorporating the BioLargo technology.

Selling Rights. A transferable, worldwide exclusive right to sell BioLargo technology and products incorporating the BioLargo technology.

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Distribution Rights. A transferable, worldwide exclusive right to inventory and distribute products incorporating the BioLargo technology.

Licensing Rights. A transferable, worldwide exclusive right to license the BioLargo technology to third parties.

Assigned Agreements. Pursuant to the terms of the M&L Agreement, IOWC and Mr. Code also assigned to BLTI its rights and obligations with respect to the following Agreements (collectively, the Assigned Agreements):

Agreement dated October 15, 2004 by and between Kenneth R. Code, IOWC, BioLargo Technologies, Inc., or IOWC s assigns, and Craig Sundheimer and Lloyd M. Jarvis (the Sundheimer Agreement);

Agreement dated January 15, 2005 by and between Kenneth R. Code, IOWC and Food Industry Technologies, Inc.; and

Letter of Intent dated November 15, 2004 by and between Kenneth R. Code and IOWC and GTS Research, Inc.

Pursuant to the terms of the M&L Agreement, the Company is entitled to receive any and all royalties, payments, license fees, and other consideration generated by the Assigned Agreements as of January 1, 2006. As part of the assignment, IOWC agreed to transfer the 20% interest it acquired in BioLargo, LLC pursuant to the Sundheimer Agreement. In October 2006, the Company terminated the Sundheimer Agreement, for cause. Subsequently, the Company and IOWC agreed that IOWC s 20% interest in BioLargo, LLC would not be transferred by IOWC to BLTI, but that BLTI would have the option to acquire such 20% interest for nominal consideration for seven years (the Option Agreement).

Consulting Agreement

On June 20, 2006, the Company entered into a Consulting Agreement with Mr. Code (the Consulting Agreement). Pursuant to the Consulting Agreement, the Company engaged the services of Mr. Code, effective January 1, 2006, to advise the Company in research and development and technical support, and to provide other services and assistance to the Company in matters relating to the BioLargo technology and the rights acquired by the Company in the M&L Agreement.

The Consulting Agreement contained provisions requiring Mr. Code to devote substantially all of his business time to the Company; prohibiting Mr. Code from directly or indirectly engaging in any business activity that would be competitive with the business of the Company or its affiliates, including BLTI; providing that during the term of the Consulting Agreement and for one year post-termination, Mr. Code will not solicit the Company s employees or customers; and other standard provisions typical for a consulting agreement. The Consulting Agreement also provided that the Company retains the exclusive right to use or distribute all creations which may be created during the term of the Consulting Agreement. The Consulting Agreement, as amended on December 20, 2006 and as of March 30, 2007, terminated when the Company entered into an Employment Agreement with Mr. Code on April 30, 2007. During the term of the Consulting Agreement, Mr. Code was paid $15,400 per month, prorated for partial months, and was entitled to reimbursement for authorized business expenses incurred in the performance of his duties.

Research and Development Agreement

On August 11, 2006, the Company and BLTI entered into a Research and Development Agreement with IOWC and Mr. Code (the R&D Agreement), which agreement was amended on August 14, 2006. Pursuant to the R&D Agreement, IOWC and Mr. Code agreed to provide research and development services and expertise in the field of disposable absorbent products to the Company.

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The R&D Agreement provides that the Company will own, and the Company will have the exclusive right to commercially exploit, the intellectual property developed, created, generated, contributed to or reduced to practice pursuant to the R&D Agreement. In addition, IOWC and Mr. Code have agreed that during the term of the R&D Agreement and for one year after termination they will not compete with, and will not provide services to any person or entity which competes with, any aspect of the Company s business.

During the term of the R&D Agreement, but only after mutually acceptable research facilities are established for the performance of IOWC s services (as of this date, no acceptable research facilities have been established), IOWC shall be paid (i) a fee of $5,500 per month for each month during which no services are being performed pursuant to the R&D Agreement to offset for laboratory and/or office and IOWC employee expenses and (ii) such additional amounts as the parties may agree in connection with specific research projects conducted pursuant to the R&D Agreement.

As further consideration to Mr. Code to enter into the R&D Agreement, on August 14, 2006 the Company issued to Mr. Code 620,637 shares of its common stock, as adjusted to reflect the Reverse Split (the Code Stock), or approximately 19.9% of the Company s then issued and outstanding common stock immediately following the issuance of the Code Stock.

In connection with the completion of the acquisition of the BioLargo technology in April 2007, the M&L Agreement, Consulting Agreement and R&D Agreement were terminated.

Acquisition of the BioLargo Technology

On April 30, 2007, the Company completed the acquisition of the BioLargo technology. The following summary of the Asset Purchase Agreement dated as of April 30, 2007 between the Company, IOWC and Mr. Code (the Asset Purchase Agreement) is qualified in its entirety by reference to the complete terms and conditions contained in the Asset Purchase Agreement itself.

Acquisition of Assets; Purchase Price. Pursuant to the terms of the Asset Purchase Agreement, Mr. Code and IOWC sold, transferred and assigned to the Company all of their rights, title and interests to:

United States Patent Number 6,146,725, relating to an absorbent composition to be used in the transport of specimens of bodily fluids; and United States Patent Number 6,328,929, relating to method of delivering disinfectant in an absorbent substrate; and related patent applications and national filings;

all proprietary knowledge, trade secrets, confidential information, computer software and licenses, formulae, designs and drawings, quality control data, processes (whether secret or not), methods, inventions and other similar know-how or rights relating to or arising out of the patents;

all license and distribution agreements to which either Mr. Code or IOWC is presently a party; and

certain records,

in exchange for 22,139,012 shares of the Company s common stock (the IOWC Shares). Mr. Code and certain other co-inventors of intellectual property had previously assigned all of their right title and interest to six patent applications filed with the United States Patent and Trademark Office (USPTO) and two additional patent applications filed under the International Patent Cooperation Treaty (PCT). The M&L Agreement, R&D Agreement and Consulting Agreement were terminated concurrent with the closing of the Asset Purchase Agreement. The IOWC Shares were issued to IOWC at the Closing. Such shares constitute full payment for the obligations of the Company owed to Mr. Code and IOWC for the license rights, assigned agreements, patents and related intellectual property acquired by the Company from Mr. Code and IOWC.

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Representations and Warranties. As part of the Asset Purchase Agreement, Mr. Code and IOWC, jointly and severally, have made certain representations and warranties to the Company with respect to, among other things:

good , valid and marketable title to the assets being sold free and clear of any and all material liens and encumbrances;

absence of the need for third party consents;

further assurances to take action to vest good title in the name of the Company

sufficiency of the assets for the future conduct of business by the Company;

intellectual property matters;

the absence of litigation and proceedings;

compliance with laws; and

limitations on the resale of the IOWC Shares in accordance with securities laws

The Asset Purchase Agreement also contains additional representations and warranties of Mr. Code and/or IOWC, and of the Company, standard for asset purchase transactions required to be publicly disclosed by reporting companies.

The representations and warranties of the parties contained in the Asset Purchase Agreement will survive for four years after the closing at which time they will expire.

Indemnification. Under the Asset Purchase Agreement, IOWC and Mr. Code have agreed, jointly and severally, to indemnify the Company and each of its officers, directors, employees, agents and affiliates, and each of their successors and assigns from and against any and all costs, losses, claims, liabilities, fines, penalties, consequential damages (other than lost profits), and expenses (including interest which may be imposed in connection therewith and court costs and reasonable fees and disbursements of counsel) incurred in connection with, arising out of, resulting from or incident to:

liabilities or claims arising out of the assets or the business of IOWC before the closing;

liabilities or claims after the closing relating to IOWC or Mr. Code;

breach of the representations or warranties made by IOWC or Mr. Code;

default in any agreements made by IOWC or Mr. Code;

taxes of any kind arise out of or result from the transactions contemplated by the Asset Purchase Agreement; and

liabilities or claims relating to employee matters.

The Company has agreed to indemnify IOWC and Mr. Code and IOWC s officers, directors, employees, agents and affiliates, and each of their successors and assigns from and against any and all costs, losses, claims, liabilities, fines, penalties, consequential damages (other than lost profits), and expenses (including interest which may be imposed in connection therewith and court costs and reasonable fees and disbursements of counsel) incurred in connection with, arising out of, resulting from or incident to:

breach of the representations and warranties made by the Company; and

default in any agreement made by the Company.

The Asset Purchase Agreement provides the mechanism by which the parties must notify each other of any claims, the methods for resolution of such and requires the parties to arbitrate any unresolved claims.

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Miscellaneous. The Asset Purchase Agreement also contains customary provisions relating to governing law, assignment of rights and obligations, attorneys fees, force majeure and other matters standard for asset purchase transactions.

Code Employment Agreement

As part of the completion of the acquisition of the BioLargo technology, the Company entered into an Employment Agreement dated as of April 30, 2007 with Mr. Code (the Code Employment Agreement). The Consulting Agreement with Mr. Code dated June 20, 2006 as amended as of December 20, 2006 and as of March 30, 2007 was terminated when the Company entered into the Employment Agreement with Mr. Code.

The Code Employment Agreement provides that Mr. Code will serve as the Chief Technology Officer of the Company, and receive (i) base compensation of $184,000 annually (with an automatic 10% annual increase); and (ii) a bonus in such amount as the Compensation Committee of the Board of Directors of the Company (the Compensation Committee) may determine from time to time. In addition, Mr. Code will be eligible to participate in incentive plans, stock option plans, and similar arrangements as determined by the Company s Board of Directors. When such benefits are made available to the senior employees of the Company, Mr. Code is also eligible to receive heath insurance premium payments for himself and his immediate family, a car allowance of $800 per month, paid vacation of four weeks per year plus an additional two weeks per year for each full year of service during the term of the agreement up to a maximum of ten weeks per year, life insurance equal to three times his base salary and disability insurance. The Code Employment Agreement has a term of five years, unless earlier terminated in accordance with its terms.

The Code Employment Agreement also provides that Mr. Code s employment may be terminated by the Company due to disability, for cause or without cause. Disability as used in the Employment Agreement means physical or mental incapacity or illness rendering Mr. Code unable to perform his duties on a long-term basis (i) as evidenced by his failure or inability to perform his duties for a total of 120 days in any 360 day period, or (ii) as determined by an independent and licensed physician whom Company selects, or (iii) as determined without recourse by the Company s disability insurance carrier. If Mr. Code s employment is terminated for cause he will be eligible to receive his accrued base compensation and vacation compensation through the date of termination. If Mr. Code s employment is terminated without cause, then he will be eligible to receive the greater of (i) one year s compensation plus an additional one half year for each year of service since the effective date of the employment agreement or (ii) one year s compensation plus an additional one half year for each year remaining in the term of the agreement.

The Code Employment Agreement requires Mr. Code to keep certain information confidential, not to solicit customers or employees of the Company or interfere with any business relationship of the Company, and to assign all inventions made or created during the term of the Code Employment Agreement as work made for hire .

In connection with the closing of the acquisition of the BioLargo technology and the execution of the Code Employment Agreement, Mr. Code was also elected to the Board of both BioLargo and BLTI.

Calvert Employment Agreement

In connection with the closing of the acquisition of the BioLargo technology, the Company also entered into a new employment agreement with Dennis Calvert, the Company s President and Chief Executive Officer. Please see Part Two, Item 8B, Other Information .

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Our Business

BioLargo Technology

Mr. Code and IOWC have developed the BioLargo technology, consisting of certain intellectual property including two U.S. patents (U.S. Patent Numbers 6146725 and 6328929), relating to a process whereby disinfecting chemistry is incorporated into absorbent materials, liquids, powders, tablets or other delivery methods, that can be then incorporated into products in multiple industries. Six additional patent applications have recently been filed with the USPTO and two additional patent applications have recently been filed with the PCT relating to this technology, all of which have been assigned to the Company.

The BioLargo technology works by placing inorganic compounds (similar in composition and dosages to what is used in everyday common vitamins) into absorbent products like bed pads, blood pads, diapers, surgical drapes, transportation packages for protective liners, wound dressings, bandages and other delivery methods. It can also be incorporated into sprays, washes, and other liquid and gaseous media for various applications. It can be delivered in various forms as a particle treatment for materials incorporated into products or as a material composition for direct application for targeted applications. Our continuing efforts related to new product development, product improvements and research and development efforts will require substantial additional capital. However the Company cannot give any assurance that adequate capital will be available, if at all, or will be available on favorable terms.

Management believes that the BioLargo technology generally offers the following beneficial features, among others:

Environmentally Friendly The BioLargo technology features a scientifically proven effective disinfectant, iodine, which is recognized as part of nature s natural cycle of sanitization.

Inorganic Solution The use of iodine in the BioLargo technology is strategically important because iodine is generally considered to be the most effective disinfecting solution, covering a broad range of materials upon which it is effective. It is also an inorganic solution, so that organic microbes are not known to be able to develop an acquired resistance to its killing power.

Disinfection The chemical composition of the BioLargo technology incorporated into products deploys an additive germ killing strategy, that includes a flashing of iodine (the scientifically recognized gold standard by which all disinfecting strategies are compared) and lowers PH levels, which creates an acidic environment, oxidation, and flocculation (or a binding reaction to lock in the microbes).

Increased Holding Power The BioLargo technology can increase significantly the holding power of absorbent material, depending on product configuration.

Disposal It renders contaminated or infectious material safe to handle.

Bio-Degradable The byproduct of the chemical reaction is bio-degradable.

Generally Regarded as Safe (GRAS) The actual chemicals used, as well as the byproduct of the chemical reaction, in the BioLargo technology, are understood by the United States Food & Drug Administration (FDA) and the scientific community generally as non-toxic and safe, when delivered within a range of dosages prescribed by the FDA.

Price The cost of raw materials is not expected to add significantly to the cost of production of products incorporating the BioLargo technology. Additionally, we believe that the incorporation of the BioLargo technology into absorbent products will offer those

products a price advantage over competing absorbent products by virtue of their increased performance, namely their increased holding power, absorbency and anti-microbial capabilities, which may also reduce the amount of absorbent materials required to be used in product production to maintain acceptable performance levels. We further believe that the use of the BioLargo technology in non-absorbent applications will be less expensive that iodine alternatives, such as chlorines and bromines.

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We intend to license the BioLargo technology to others, and possibly develop certain products ourselves, for use in several vertical markets. We believe that the BioLargo technology will enable us to address four precautions containment, isolation, neutralization and disposal against disease transmission as established by the Center for Disease Control (the CDC). The BioLargo technology has been reviewed and validated in several third party studies.

We believe that the primary initial markets for the BioLargo technology are likely to be:

- water and soil treatment and remediation
- medical products
- packaging for blood and bio-hazardous material transport
- meat and poultry packing

We plan to pursue our primary revenues from licensing the BioLargo technology, although subject to adequate financing, we may also produce our own products. Subject to regulatory compliance where applicable, the BioLargo technology is presently available for incorporation into certain products, including absorbent pads and materials to be used for clean up of or as a precautionary measure from spills of liquids, including hazardous materials. We are actively working with manufacturers, other technology developers and potential customers to develop additional products for distribution.

Research and Development

Through IOWC, Mr. Code has been involved in the research and development of the BioLargo technology since 1997. He has participated in the Canadian Federal Scientific Research and Experimental Development program and he was instrumental in the discovery, preparation and filing of the first BioLargo technology patents. He has worked with manufacturers, distributors and suppliers in a wide variety of industries to gain a full appreciation of the potential applications and the methodologies applicable to the BioLargo technology for their manufacture and performance. He continues to research methods and applications to continue to expand the potential uses of the BioLargo technology as well as work to uncover new discoveries that may provide addition commercial applications to help solve real world problems in the field of disinfection.

We are also presently conducting initial research and development on thermal characteristics of material incorporating the BioLargo technology for use in packaging and transport.

We spent $129,522 in 2006 and $0 in 2005 on research and development. See Management s Discussion and Analysis of Financial Condition and Results of Operation Results of Operations for a more complete understanding of our research and development expenses in 2006.

We currently anticipate that research and development costs over the next 12 months could range significantly, between $300,000 and $1,000,000, and will be subject to third-party financing which we will require in order to execute our business plan. Although we are actively pursuing such financing, no such commitment is yet in place. We would invest any such funds primarily on continued testing of the BioLargo technology in certain applications and the development of additional production methods for use of the BioLargo technology in certain applications.

Independent Laboratory and Scientific Testing

The Company works with ATS Labs (ATS) in Eagan, Minnesota, a nationally recognized contract testing laboratory that provides microbiology and virology testing services to the manufacturers and users of antimicrobial products. ATS provides product development support, efficacy testing services and antimicrobial

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process validations to clients who develop products regulated by the Environmental Protection Agency (EPA) and the FDA.

The majority of the efficacy studies performed by ATS are performed under Good Laboratory Practice (GLP) standards for regulatory submissions. GLP standards are federal regulations that define the practices for conducting studies that support the registration of pesticidal products. Compliance with GLP standards involves extensive documentation and assures regulatory authorities that the data submitted are factual, accurate and can be reproduced. Furthermore, these data and results be relied upon by regulatory agencies for making efficacy, safety and risk assessments.

ATS has performed eleven studies for BioLargo since July 2006 to explore the antimicrobial performance of the BioLargo s proprietary technology with various pathogens at a range of dosages and contact times to determine the most effective and economical disinfection/sanitizing application conditions for the BioLargo technology. Additional testing is planned in the future.

In September and October 2006, Jennifer Ayla Jay, Ph.D., an assistant professor in the Civil and Environmental Engineering Department at UCLA, conducted a study of the BioLargo technology for the disinfection of microbially contaminated sand. Suspension testing of the iodine generated by the BioLargo technology in water showed that the BioLargo technology has effective disinfecting capability for contaminated sand. Dr. Jay presented her findings in October 2006 at the National Beaches Conference sponsored by the EPA in collaboration with the Great Lakes Beach Association. The conference provided a national framework for discussion of beach water quality issues, exchange of information, and coordination of efforts in research and decision-making.

Marketing Technology Services in Kalamazoo, Michigan, a company providing product testing and certification to the absorbent materials industry for more than 25 years, performed a series of tests in 2001, and confirmed the absorbency rates and holding power of absorbent material incorporating the BioLargo technology. Absorbency tests were run to measure how much liquid absorbent material incorporating the BioLargo technology would hold. These tests confirmed the rate of absorption by size and weight of absorbent material incorporating the BioLargo technology. Holding capability was determined in what is referred to as a re-wet test, in which previously wetted absorbent material incorporating the BioLargo technology was subjected to pressure to determine how much liquid escaped the material. This test concluded the BioLargo technology increased the holding power of absorbent material as compared with comparable absorbent material not treated with the BioLargo technology.

Ongoing third-party testing is a critical part of our business plan. These efforts can be time consuming and some of these efforts are costly, requiring adequate capital resources to continue such efforts. However the Company cannot give any assurance that adequate capital will be available, if at all, or will be available, if at all, on favorable terms.

Manufacturing

Our current business plan calls for us to license our BioLargo technology, under strict quality control standards, to others for incorporation into existing and newly-created products across numerous industry verticals. Currently, we do not intend to manufacture our own products. We intend to work with manufacturers on a contract-for-hire basis, or on a project-by-project basis with the potential for these manufacturers to create a product supplier relationship for potential licensees of products incorporating the BioLargo technology. These collaborative efforts will focus on design and specifications for production of pre-commercial samples of products and for actual commercial products.

We have an existing non-exclusive business relationship with Aveka, Inc. (Aveka). Aveka assists us in (i) supplying blended material or treated particles, the chemicals we use in the form tablets or powders, and

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super-absorbent polymer (SAP) beads for incorporation in absorbent material; (ii) blending materials, (iii) particle treatment; (iv) preparing samples of products; and (v) manufacturing and processing specifications for materials and prototypes that incorporate the BioLargo technology. Aveka also assists us in product design and assists in discovery associated with the uses and manufacturing of products associated with our technology. We paid Aveka approximately $75,000 during 2006 for approximately 14 projects they undertook on our behalf.

We intend to use Aveka or other third party manufacturers to produce chemicals such as tablets and powders. Aveka does not produce SAP beads and we intend to use other suppliers of such material. We do not have exclusive arrangements or written agreements with any such manufacturers that we have used to date. We believe that we have several choices for manufacturers of chemicals and are not dependent upon any single manufacturer or source of materials**.** Most of the chemicals we use in the production of the tablets and powders for the BioLargo technology, such as potassium iodide, are not scarce and not subject to price volatility. SAP beads, which are a petrochemical derivative, are generally readily available but have been subject to periodic scarcity and price volatility from time to time during recent years, although prices are relatively stable at present.

Sales and Marketing

Subject to obtaining adequate third-party financing, for which no commitments are yet in place, over at least the next 12 months, we intend to devote a significant part of our resources to sales and marketing of the BioLargo technology to potential licensees. This is a continuation of the initial efforts we undertook during 2006. While specific efforts will vary based on market conditions and opportunities that present themselves from time to time, the following discussion of recent efforts is indicative of the types of efforts we expect to undertake on an ongoing basis.

In April 2006, we engaged Robert Stewart, Ph.D., to serve as the Company s regulatory specialist for required activities involving the EPA and the FDA. During this period, we also focused on establishing relationships with key agents who work on a commission basis to assist us in marketing to large corporations and other organizations. In May 2006, we hired a consultant to assist us on our marketing and sales efforts.

From February through April 2006, we began discussions with five major research universities to further our research for specific applications. In September 2006, we hired UCLA to research applications of the BioLargo technology for beach and soil remediation. An initial report regarding this research was presented in October 2006 at the National Beaches Conference sponsored by the EPA. These various discussions are ongoing and focus on engaging those universities to perform research on the BioLargo technology for soil and sand remediation, animal studies, United States Department of Defense applications, and embedded anti-microbial applications in textiles.

Throughout 2006, we engaged in various efforts to continue testing, developing and pre-marketing products incorporating the BioLargo technology. For example, in January 2006, we contracted with a third party manufacturer to produce samples for presentation purposes of absorbent pads. We also engaged a particle, formulations, blending and specialty manufacturing company to work with us in product development and sample fabrication. In June 2006, we hired a third-party laboratory to perform a series of independent test and issue their reports to assist us in validating the BioLargo technology to a GLP standard.

Throughout 2006, we also were actively involved in initial marketing activities for the BioLargo technology. For example, in February 2006, we presented the BioLargo technology to a number of major corporations for potential licensing discussions. Following an April 2006 international conference of industry for infection control in Prague, Czech Republic, attended by Mr. Code, we pursued with Mr. Code presentations to one of the largest companies in the embedded anti-microbial industry. In June 2006, we began discussions with a number of large healthcare companies about incorporating the BioLargo technology in their products. The potential areas of focus include wound dressings, drapes, wipes, bandages, diapers disinfecting and sterilization solutions, among other possible uses in their various products.

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Also in June 2006, we participated in a conference for all government agencies throughout California and have since discussed the BioLargo technology for possible governmental use in sewage spills, water quality, rainwater runoff contamination problems and beach clean-up efforts. Also in June 2006, we participated in a national military defense conference sponsored by the National Defense Industry Association for all military services, including the Department of Homeland Security, and have since discussed the BioLargo technology for possible application in the areas of military hospitals, pandemic prevention, agricultural protection, hazardous waste, food protection, decontamination of porous and non-porous materials, disaster relief and national world class laboratory access. Subsequently, we have presented the BioLargo technology with other governmental officials and agencies. In September we also attended a national Agro Terrorism Conference sponsored by the Federal Bureau of Investigation and the Joint Terrorism Task Force.

Meetings are continuing with numerous potential licensees or purchasers or other users of products incorporating the BioLargo technology in a range of applications. A number of prospective licensees are engaged in materials and product testing efforts, as well as discussions with the Company about product designs and various uses of the BioLargo technology. However, it is essential to note that we do not yet have any agreements in place with any of these potential licensees, purchasers or other users, or any other potential licensees, purchasers or other users, regarding any products incorporating the BioLargo technology, and no assurance can be given if any such efforts will prove successful or result in commercialization of the BioLargo technology.

Because of the global implications of the BioLargo technology, we intend to augment our U.S. operations with an operational and marketing presence in the European Union (EU), subject to obtaining adequate funding, which we are actively seeking but for which no commitment has yet been obtained.

Competition

Large well-capitalized companies, such as Johnson & Johnson, BASF Corporation, Dow Chemical Co., E.I. DuPont De Nemours &Co., Chemical and Mining Company of Chile, Inc., Proctor and Gamble Co., Johnson Diversey, Inc., EcoLab, Inc., Steris Corp. and Siemens AG, and others, dominate each of their respective markets for disinfecting or sanitizing products. Each of these named companies and many other competitors are significantly more capitalized than we are and have many more years of experience in producing disinfecting or sanitizing products.

Our BioLargo technology and products incorporating our BioLargo technology would compete with many other applications currently on the market. In addition, we are aware of other companies engaged in research and development of other novel approaches to applications in some or all of the markets identified by us as potential fields of application for our products. Many of our present and potential competitors have substantially greater financial and other resources and larger research and development staffs than we have. Many of these companies also have extensive experience in testing and applying for regulatory approvals. In addition, colleges, universities, government agencies, and public and private research organizations conduct research and are becoming more active in seeking patent protection and licensing arrangements to collect royalties for the use of technology that they have developed, some of which may be directly competitive with our applications.

Regulation

Products incorporating the BioLargo technology may be regulated depending upon the application and the scientific claims made. We believe that the primary focus of our BioLargo technology is its disinfecting capability, and such claims are subject to FDA or EPA regulation. However, we believe that some products incorporating our BioLargo technology can be sold based on claims regarding enhanced holding and/or absorption capabilities only; we believe that such claims are not subject to FDA or EPA regulation.

The regulatory approvals for certain applications may be difficult, impossible, time consuming and or expensive to obtain. While management believes that such approvals are available for the applications contemplated, until those approvals from the FDA or the EPA, or other regulatory bodies, if required, at the

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federal and state levels, as may be required are obtained, then the Company may not be able to generate commercial revenues. Certain specific regulated applications and its use therein require highly technical analysis, additional third party validation and will require regulatory approvals from organizations like the FDA. Accordingly, the Company can give no assurance as to its ultimate success in obtaining the necessary approvals from either the EPA or the FDA.

Additionally, the Company intends to pursue commercial opportunities in Europe for its technology. The EU governs the registration and uses of individual chemical ingredients which are used in products which may incorporate the BioLargo technology, including their uses and allowable dosages. In addition, when pursuing a commercial strategy within the EU, the member countries of the EU each have an oversight and registration process which governs the formulations which are being sold in their country. Specific regulated applications in the EU and its use therein require highly technical analysis, additional third-party validation and will require regulatory approvals from these organizations. The regulatory approvals required for certain applications may be difficult, impossible, time consuming and/or expensive to obtain. Accordingly, the Company can give no assurance as to its ultimate success in introducing the BioLargo technology in the EU.

Intellectual Property

We regard our intellectual property as critical to the ultimate success of the Company. The Company worked closely with Mr. Code and IOWC during 2006, pursuant to the Consulting Agreement and R&D Agreement, to identify technology improvements and additional patent opportunities that expand and enhance on the original patents issued. At the same time, the Company worked to secure additional third-party testing and validations for the efficacy and product claims associated with the technology, namely through its work with ATS and the Department of Environmental Engineering at UCLA.

In connection with the closing of the acquisition of the BioLargo technology in April 2007, the Company obtained full rights, title and interest to two US patents previously owned by Mr. Code and IOWC. Mr. Code, IOWC and co-inventors of certain intellectual property had previously assigned six USPTO patent applications and two additional PCT patent applications to the Company.

The Company believes that this suite of intellectual property covers the presently targeted major areas of focus for its licensing strategy. The description of the Company s intellectual property, as present, is as follows:

Patents

United States Patent 6,146,725, dated November 14, 2000, entitled absorbent composition , relating to an absorbent composition to be used in the transport of specimens of bodily fluids

United States patent 6,328,929, dated December 11, 2001, entitled Method of delivering disinfectant in an absorbent substrate , relating to method of delivering disinfectant in an absorbent substrate

Patent Applications

USPTO Patent Application 11/516,958 (filed September 7, 2006), relating to the use of the BioLargo technology as a treatment for remediation and improvement of a mass such as sand or soil that has been contaminated with microbes such as bacteria, viruses, rickettsiae and fungi.

USPTO Patent Application 11/516,960 (filed September 7, 2006), relating to the use of the BioLargo technology to provide protection against antimicrobial activity including the preventing of microbial build up that can occur, when used in close proximity to the bodies of human patients in product such as sheets, diapers, bandages compresses and the like.

USPTO Patent Application 60/850,976 (filed October 11, 2006), relating to the use of the BioLargo technology for antimicrobial protection, in environments such as offices, vehicle cabs,

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operating rooms, vehicle interiors, grain storage facilities and the like, that need to be protected from or cleansed of microbial or chemical material that might be of concern. The technology also includes proprietary coating and/or treatment of provided materials or reagents.

USPTO Patent Application 60/873,763 (filed December 8, 2006), relating to the use of the BioLargo technology as a treatment of environments including fields, lawns, parks, orchards, farm fields, greenhouses to provide at least pesticidal activity.

USPTO Patent Application 60/881,061 (filed January 18, 2007), relating to use of the BioLargo technology as a treatment of residue, deposits or coatings within large liquid carrying structures such as pipes, drains, ducts, conduits, run-offs, tunnels and the like, using iodine, delivered in a variety of physical forms and methods, including using its action to physically disrupt coatings. The iodine s disruptive activity may be combined with other physical removal systems such as pigging, scraping, tunneling, etching or grooving systems or the like.

USPTO Patent Application 60/900,374 (filed February 8, 2007), relating to the use of the BioLargo technology as protection of against antimicrobial activity in environments that need to be protected or cleansed of microbial or chemical material. These environments include closed and open environments and absorbent sheet materials that exhibit stability until activated by aqueous environments. The field also includes novel particle technology, coating technology or micro-encapsulation technology to control the stability of chemicals that may be used to kill or inhibit the growth of microbes to water vapor or humidity for such applications.

PCT/US Patent Application 2007/07508 (filed March 27, 2007), claiming priority from at least some of the earlier USPTO Patent applications listed above, and expanded the scope of coverage to additional technologies such as packets for dishwashers.

PCT/US Patent Application 2007/07515 (filed March 27, 2007), claiming priority from the last-listed USPTO patent application and its associated claims.

The Company intends to continue to expand and enhance its suite of intellectual property through ongoing focus on product development, new intellectual property development and patent applications, and further third-party testing and validations for specific areas of focus for commercial exploitation. We currently anticipate that additional patent applications will be filed during the next 12 months with the USPTO and the PCT, although we are uncertain of the cost of such patent filings, which will depend upon the number of such applications prepared and filed. The prosecution of patents and ongoing maintenance and defense of patents is expensive and will require substantial ongoing capital resources. However the Company cannot give any assurance that adequate capital will be available or will be available, if at all, on favorable terms.

Other Recent Corporate Developments

On March 15, 2007 the Company s stockholders approved the filing of an amendment to the Company s certificate of incorporation changing the Company s name to BioLargo, Inc. The amendment to the certificate of incorporation was filed on March 16, 2007 with the Secretary of State of the State of Delaware. In connection with this name change, the Company has obtained a new trading symbol. The Company s stock continues to trade through the National Quotation Service Bureau, commonly known as the Pink Sheets , under its new trading symbol BLGO effective March 21, 2007.

Also on March 15, 2007, the Company s stockholders approved, and effective as of the close of business on March 19, 2007, the Company completed, the 1-for-25 reverse split of its common stock. Additionally, on March 15, 2007, the Company s stockholders approved and the Company has filed, an amendment to the Company s certificate of incorporation increasing the Company s authorized capital stock to 200,000,000 shares of common stock and 50,000,000 shares of preferred stock, on a post-Reverse Split basis.

Following such action, the Company converted an aggregate $2,235,276 of principal and accrued but unpaid interest of convertible notes held by 92 investors. These notes had various maturity dates and provided for

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various conversion prices ranging from $0.10 to $0.625 per share, as adjusted to reflect the Reverse Split and were converted into an aggregate 6,985,441 shares of the Company s common stock, as adjusted to reflect the Reverse Split.

The Company also converted an aggregate $608,759 of accrued payables to five of its current or former officers and directors into an aggregate 1,623,359 shares of the Company s common stock, as adjusted to reflect the Reverse Split. These conversions were effected at $0.375 per share, the closing price of a share of the Company s common stock on the March 15, 2007 conversion date, as adjusted to reflect the Reverse Split.

The Company also converted an aggregate $740,296 of accrued payables to 18 of its current or former consultants into an aggregate 1,803,615 shares of the Company s common stock, as adjusted to reflect the Reverse Split. These conversions were effected at various prices ranging from $0.20 to $0.625 per share, as adjusted to reflect the Reverse Split.

On April 11, 2007, Augustine II, LLC (the Augustine Fund) converted an aggregate $717,138 of principal and accrued but unpaid interest of a convertible note, as amended (the Augustine Note), into 2,031,553 shares of the Company s common stock. The Augustine Note had a maturity date of May 1, 2007. The Augustine Note provided for a conversion price equal to the last bid price of the five trading days preceding the date of conversion, or $0.353 per share. The Augustine Note and the loan agreement in respect of the Augustine Note limited the Augustine Fund to hold not more than 4.9% of the Company s issued and outstanding common stock at any given time. In connection with the conversion of the Augustine Note, the Company waived this limitation.

On April 13, 2007, New Millennium Capital Partners, LLC (New Millennium) converted the $900,000 principal amount of a note, as amended (the New Millennium Note), into 1,636,364 shares of the Company s common stock. The New Millennium Note had a maturity date of January 15, 2008. The New Millennium Note was converted at a price of $0.55 per share, which was the last bid price on the date of conversion. New Millennium is controlled by Dennis Calvert, the Company s President and Chief Executive Officer.

Employees

As of December 31, 2006, we employed one full-time employee, one part-time employee, three full-time consultants and three part-time consultants.

In April 2007, Mr. Code, who served as one of our full-time consultants during 2006, became our Chief Technical Officer in conjunction with the closing of the acquisition of the BioLargo technology.

Risk Factors

The Company faces a number of significant risks associated with its current plan of operations. These include the following:

We have never generated any revenues, have a history of losses, and cannot assure you that we will ever become or remain profitable.

We have not yet generated any revenue from operations and, accordingly, we have incurred net losses every year since our inception. To date, we have dedicated most of our financial resources to research and development, general and administrative expenses and initial sales and marketing activities. We have funded all of our activities through sales of our securities. Even if and when we begin licensing our technology, we anticipate net losses and negative cash flow to continue for the foreseeable future until such time as licensing revenue is generated in sufficient amounts to offset operating losses. As planned, we have significantly expanded both our research and development efforts, and our sales and marketing efforts, during the past year. Consequently, we will need to generate significant additional revenue to fund our operations. This has put a proportionate corresponding demand on capital. Our ability to achieve profitability is dependent upon our

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continuing research and development, product development, and sales and marketing efforts, and our ability to successfully license the BioLargo technology. There can be no assurance that we will ever generate revenues or that any revenues that may be generated will be sufficient for us to become profitable or thereafter maintain profitability. We may also face unforeseen problems, difficulties, expenses or delays in implementing our business plan.

We need significant additional funds to maintain and develop our business.

As of December 31, 2006 our expenses ran at a burn rate of approximately $100,000 per month and more recently has been running at a burn rate of approximately $150,000 per month. Our burn rate is expected to rise significantly now that the acquisition of the BioLargo technology has been completed. Our current capital resources will be sufficient to fund operations only through May 2007, and we will require substantial additional capital in order to operate beyond this date. Management is actively pursuing other financing alternatives. However, no assurance can be given at this time that any such sources of capital will be available to us, or available to us on favorable terms. If we cannot obtain needed capital, when and as we need it, our continuing research and development efforts, sales and marketing plans, business and financial condition and our ability to reduce losses and generate profits are likely to be materially and adversely affected.

The cost of maintaining our public company reporting obligations is high. We expect to incur increased costs under the Sarbanes-Oxley Act of 2002.

The Company is obligated to maintain its periodic public filings and public reporting requirements, on a timely basis, under the Rules and Regulations of the SEC. In order to meet these obligations, the Company will need to continue to raise capital. If adequate funds are not available to the Company, it will be unable to comply with those requirements and could cease to be qualified to have its stock traded in the public market. As a public company, we incur significant legal, accounting and other expenses. In addition, the Sarbanes-Oxley Act of 2002, as well as related rules adopted by the SEC, have imposed substantial requirements on public companies, including certain corporate governance practices and requirements relating to internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. Although, under proposed rules issued by the SEC in July 2006, we will not be required to evaluate how to document and test our internal control procedures under Section 404 of the Sarbanes-Oxley Act and the related rules of the SEC until our Annual Report on Form 10-KSB for the year ended December 31, 2007, effective disclosure controls and procedures and internal controls are necessary for us to produce reliable financial reports and are important in helping prevent financial fraud generally. We must begin to implement proper procedures significantly in advance of this date and will incur significant up-front expenses to do so. If we are unable to achieve and maintain adequate disclosure controls and procedures and internal controls, our business and operating results could be harmed.

Our stockholders face further potential dilution in any new financing.

Any additional equity that we raise would dilute the interest of the current stockholders and any persons who may become stockholders before such financing. Given the low price of our common stock, such dilution in any financing of a significant amount could be substantial.

Our stockholders face further potential adverse effects from the terms of any preferred stock which may be issued in the future.

In order to raise capital to meet expenses or to acquire a business, our Board of Directors may issue additional stock, including preferred stock. Any preferred stock which we may issue may have voting rights, liquidation preferences, redemption rights and other rights, preferences and privileges. The rights of the holder s of our common stock will be subject to, and in many respect subordinate to, the rights of the holders of any such

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preferred stock. Furthermore, such preferred stock may have other rights, including economic rights, senior to our common stock that could have a material adverse effect on the value of our common stock. Preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, can also have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock, thereby delaying, deferring or preventing a change in control of the Company.

There are significant risks relating to the BioLargo technology.

The BioLargo technology is at an early stage of development. There is a risk that our technology will not be commercially feasible or, even if our technology is commercially feasible, it may not be commercially accepted. In addition, products incorporating the BioLargo technology will require extensive research, development and testing before they can be commercialized. Many of these potential products, if any, also may involve lengthy regulatory reviews and require regulatory approval before they can be sold. There is no assurance, however, that any products incorporating the BioLargo technology will prove to be safe and effective, meet regulatory standards or continue to meet such standards if already approved. There is no assurance that we can market the BioLargo technology successfully as a licensor. Failure to achieve commercial feasibility, demonstrate safety, achieve clinical efficacy, obtain regulatory approval and/or, together with partners, successfully market products will negatively impact our revenues and results of operations. As a company in the development stage and with an unproven business strategy, our limited history of operations makes evaluation of the BioLargo technology as a business difficult. We may not attain profitable operations and our management may not succeed in realizing our business objectives.

We expect to incur future losses and may not be able to achieve profitability.

Although we expect to generate revenue eventually from licensing the BioLargo technology, and possibly engaging in certain limited direct sales of products under certain conditions, we anticipate net losses and negative cash flow to continue for the foreseeable future until such time as our products are brought to market, and for a period of time thereafter. We intend to significantly expand our research and development efforts. Consequently, we will need to generate significant additional revenue or seek additional funding to fund our operations. This has put a proportionate corresponding demand on capital. Our ability to achieve profitability is entirely dependent upon our research and development efforts to deliver a viable product and the Company s ability to successfully bring it to market. Although our management is optimistic that we will succeed in licensing the BioLargo technology, we cannot be certain as to timing or whether we will generate sufficient revenue to be able to operate profitably. If we cannot achieve or sustain profitability, we may not be able to fund our expected cash needs or continue our operations.

If we are not able to devote adequate resources to promote commercialization of the BioLargo technology,our business plans will suffer.

Because we have limited resources to devote to sales, marketing and licensing efforts with respect to the BioLargo technology, any delay in such efforts may jeopardize future research and development of technologies, and commercialization of the BioLargo technology. Although our management believes that, now that the acquisition of the BioLargo technology has been completed, it can finance commercialization efforts through sales of our securities and possibly other capital sources, if we do not successfully bring the BioLargo technology to market, our ability to generate revenues will be adversely affected.

Most of the products incorporating the BioLargo technology will require regulatory approval.

The products in which the BioLargo technology may be incorporated have both regulated and non-regulated applications. The regulatory approvals for certain applications may be difficult, impossible, time consuming and or expensive to obtain. While the management believes such approvals can be obtained for the applications contemplated, until those approvals from the FDA or the EPA or other regulatory bodies, if required, at the

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federal and state levels, as may be required are obtained, then the Company may not be able to generate commercial revenues. Certain specific regulated applications and its use therein require highly technical analysis, additional third party validation and will require regulatory approvals from organizations like the FDA. Additionally, most products incorporating the BioLargo technology for sale in the EU will require EU and possibly also individual country regulatory approval. All such approvals, including additional testing, are time-consuming, expensive and do not have assured outcomes of ultimate regulatory approval.

We need to outsource and rely on third parties for the manufacture of the chemicals used in the BioLargo technology and part of our future success will be dependent on the timeliness and effectiveness of the efforts of these third parties.

We do not have the required financial and human resources or capability to manufacture the chemicals that comprise the BioLargo technology. Our business model calls for the outsourcing of the manufacture of these chemicals in order to reduce our capital and infrastructure costs as a means of potentially improving our financial position and the profitability of our business. Accordingly, we must enter into agreements with other companies that can assist us and provide certain capabilities, including sourcing and manufacturing, which we do not possess. We may not be successful in entering into such alliances on favorable terms or at all. Even if we do succeed in securing such agreements, we may not be able to maintain them. Furthermore, any delay in entering into agreements could delay the development and commercialization of the BioLargo technology or reduce its competitiveness even if they reach the market. Any such delay related to such future agreements could adversely affect our business.

If any party to which we have outsourced certain functions fails to perform its obligations under agreements with us, the commercialization of the BioLargo technology could be delayed or curtailed.

To the extent that we rely on other companies to manufacture the chemicals used in the BioLargo technology, or sell or market products incorporating the BioLargo technology, we will be dependent on the timeliness and effectiveness of their efforts. If any of these parties does not perform its obligations in a timely and effective manner, the commercialization of the BioLargo technology could be delayed or curtailed because we may not have sufficient financial resources or capabilities to continue such efforts on our own.

If the BioLargo technology or products incorporating the BioLargo technology do not gain market acceptance, it is unlikely that we will become profitable.

The market for disinfecting or sanitizing products that are used to transport biohazardous material, serve as an absorbent pad or clean-up device, and utilized for food applications or remediation efforts, is rapidly evolving and we have many successful competitors. Multiple manufacturers have historically used various technologies, including protective boxes, styrofoam boxes, gel packs, absorbent materials, bed pads, drapes, and clean up pads, to package blood products for transportation; and to sanitize, deodorize, and clean up, as well as protect workers and patients in healthcare and other applicable environments. At this time, the BioLargo technology is unproven in its commercial use, and the use of the BioLargo technology by others is nominal. The commercial success of products incorporating the BioLargo technology will depend upon the adoption of the BioLargo technology by biohazardous material transporters, biohazardous material storage and testing companies, healthcare workers, hospitals, nursing homes, infectious disease experts and other end users as an approach to reduce the risk of disease transfer and disease containment and related biohazardous materials handling, among other applications.

Market acceptance may depend on many factors, including:

- the willingness and ability of consumers and industry partners to adopt new technologies;

- the willingness of governments to mandate reduction of the rates of incidence of disease transfer, reduction of risk of spills and leaks associated with biohazardous materials and as a general safety measure, as well as regulatory approvals (e.g. FDA or EPA) in certain applications where the BioLargo technology may be used;

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- our ability to convince potential industry partners and consumers that the BioLargo technology is an attractive alternative to other technologies for disinfection, sanitization, remediation, reduction of disease transfer and as a protective and safety device against biohazardous materials;

- our ability to obtain the chemicals from third parties that are used in the BioLargo technology, in sufficient quantities with acceptable quality and at an acceptable cost; and

- our ability to license the BioLargo technology in a commercial effective manner.

If products incorporating the BioLargo technology do not achieve a significant level of market acceptance, demand for the BioLargo technology itself may not develop as expected and, in such event, it is unlikely that we will become profitable.

Any revenues that we may earn in the future are unpredictable, and our operating results are likely to fluctuate from quarter to quarter.

We believe that our future operating results will fluctuate due to a variety of factors, including:

- delays in product development by us or third parties;

- market acceptance of products incorporating the BioLargo technology;

- changes in the demand for, and pricing, of products incorporating the BioLargo technology;

- competition and pricing pressure from competitive products;

- manufacturing delays; and

- expenses related to, and the results of, proceedings relating to our intellectual property.

We expect our operating expenses will continue to increase significantly in 2007 and 2008, as we continue our research and development, and increase our marketing and licensing activities. Although we expect to generate revenues from licensing the BioLargo technology in the future, revenues may decline or not grow as anticipated and our operating results could be substantially harmed for a particular fiscal period. Moreover, our operating results in some quarters may not meet the expectations of stock market analysts and investors. In that case, our stock price most likely would decline.

We may not be able to attract or retain qualified senior personnel.

We believe we are currently able to manage our current business with our existing management team. However, as we expand the scope of our operations, we will need to obtain the full-time services of additional senior management and other personnel. Competition for highly-skilled personnel is intense, and there can be no assurance that we will be able to attract or retain qualified senior personnel. Our failure to do so could have an adverse effect on our ability to implement our business plan. As we add full-time senior personnel, our overhead expenses for salaries and related items will increase from current levels and, depending upon the number of personnel we hire and their compensation packages, these increases could be substantial.

If we lose our key personnel or are unable to attract and retain additional personnel, we may be unable to achieve profitability.

Our future success is substantially dependent on the efforts of our senior management, particularly Messrs. Calvert and Code. The loss of the services of members of our senior management may significantly delay or prevent the achievement of product development and other business objectives. Because of the scientific nature of our business, we depend substantially on our ability to attract and retain qualified marketing, scientific and technical personnel. There is intense competition among specialized and technologically-oriented companies for qualified personnel in the areas of our activities. If we lose the services of, or do not successfully recruit key marketing, scientific and technical personnel, the growth of our business could be substantially impaired. At present, we do not maintain key man insurance for any of our senior management.

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Changes in stock option accounting rules may adversely affect our reported operating results, our stock price, and our ability to attract and retain employees.

The Financial Accounting Standards Board has implemented rules that require companies such as us to record all stock-based employee compensation as an expense. The new rules apply to stock options grants, as well as a wide range of other share-based compensation arrangements including restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. As a small company with limited financial resources, we have depended upon compensating our officers, directors, employees and consultants with such stock based compensation awards in the past in order to limit our cash expenditures and to attract and retain officers, directors, employees and consultants. Accordingly, if we continue to grant stock options or other stock based compensation awards to our officers, directors, employees, and consultants after the new rules apply to us, our future earnings, if any, will be reduced (or our future losses will be increased) by the expenses recorded for those grants. These compensation expenses may be larger than the compensation expense that we would be required to record were we able to compensate these persons with cash in lieu of securities. Since we are a small company, the expenses we may have to record as a result of future options grants may be significant and may materially negatively affect our reported financial results. The adverse effects that the new accounting rules may have on our future financial statements should we continue to rely heavily on stock-based compensation may reduce our stock price and make it more difficult for us to attract new investors. In addition, reducing our use of stock plans as an incentive for and a reward to our officers, directors and employees, could result in a competitive disadvantage to us in the employee marketplace.

Nondisclosure agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information.

In order to protect our proprietary technology and processes, we rely in part on nondisclosure agreements with our employees, licensing partners, consultants, agents and other organizations to which we disclose our proprietary information. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover trade secrets and proprietary information, and in such cases we could not assert any trade secret rights against such parties. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position. Since we rely on trade secrets and nondisclosure agreements, in addition to patents, to protect some of our intellectual property, there is a risk that third parties may obtain and improperly utilize our proprietary information to our competitive disadvantage. We may not be able to detect unauthorized use or take appropriate and timely steps to enforce our intellectual property rights.

The licensing of the BioLargo technology or the manufacture, use or sale of products incorporating the BioLargo technology may infringe on the patent rights of others, and we may be forced to litigate if an intellectual property dispute arises.

If we infringe or are alleged to have infringed another party s patent rights, we may be required to seek a license, defend an infringement action or challenge the validity of the patents in court. Patent litigation is costly and time consuming. We may not have sufficient resources to bring these actions to a successful conclusion. In addition, if we do not obtain a license, do not successfully defend an infringement action or are unable to have infringed patents declared invalid, we may:

incur substantial monetary damages;

encounter significant delays in marketing our current and proposed product candidates;

be unable to conduct or participate in the manufacture, use or sale of product

candidates or methods of treatment requiring licenses;

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lose patent protection for our inventions and products; or

find our patents are unenforceable, invalid, or have a reduced scope of protection.

Parties making such claims may be able to obtain injunctive relief that could effectively block the company s ability to further develop or commercialize our current and proposed product candidates in the United States and abroad and could result in the award of substantial damages. Defense of any lawsuit or failure to obtain any such license could substantially harm the company. Litigation, regardless of outcome, could result in substantial cost to and a diversion of efforts by the company.

We may face costly intellectual property disputes.

Our ability to compete effectively will depend in part on our ability to develop and maintain proprietary aspects of our technology and either to operate without infringing the proprietary rights of others or to obtain rights to technology owned by third parties. Pending patent applications relating to the BioLargo technology may not result in the issuance of any patents or any issued patents that will offer protection against competitors with similar technology. Patents we receive may be challenged, invalidated or circumvented in the future or the rights created by those patents may not provide a competitive advantage. We also rely on trade secrets, technical know-how and continuing invention to develop and maintain our competitive position. Others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets.

We are subject to risks related to future operations outside of North America.

We expect to develop operations outside of North America, and as those efforts are pursued, we will face risks related to our foreign operations such as:

foreign currency fluctuations;

unstable political, economic, financial and market conditions;

import and export license requirements;

trade restrictions;

increases in tariffs and taxes;

high levels of inflation;

restrictions on repatriating foreign profits back to the United States;

greater difficulty collecting accounts receivable and longer payment cycles;

less favorable intellectual property laws;

regulatory requirements;

unfamiliarity with foreign laws and regulations; and

changes in labor conditions and difficulties in staffing and managing international operations.

The volatility of certain raw material costs may adversely affect operations and competitive price advantages for products that incorporate the BioLargo technology.

While most of the chemicals and other key materials that we use in our business, such as minerals, fiber materials, and packaging materials are neither generally scarce nor price sensitive, but prices for such chemicals and materials can be cyclical. SAP beads, which are a petrochemical derivative, have been subject to periodic scarcity and price volatility from time to time during recent years, although prices are relatively stable at present. Supply and demand factors, which are beyond our control, generally affect the price of our raw materials. We try

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to minimize the effect of price increases through production efficiency and the use of alternative suppliers. If we are unable to minimize the effects of increased raw material costs, our business, financial condition, results of operations and cash flows may be materially adversely affected.

There are potential claims from prior business affiliates of IOWC regarding the BioLargo technology.

During the history of the development of the BioLargo technology, Mr. Code previously assigned the two patents registered with the USPTO, which we acquired in April 2007, to a third party company. Mr. Code believes that the agreement between IOWC, Mr. Code and this other party was breached and terminated, and such parties have no rights to any part of the BioLargo technology. Nonetheless, such parties, or their successors or assigns, could make claims of rights of ownership to all or some portion of the BioLargo technology. In the event of a legal dispute, a lengthy and costly legal defense would be required to defend against any such claims, and notwithstanding the Company s position in these potential disputes, the Company cannot predict the outcome of such litigation. Loss of our ownership of the BioLargo technology would have a serious adverse affect on our business and plan of operations. Any financial settlement of claims, including royalties we might have to pay to third parties, could have a serious adverse affect on our results of operations.

Upon the consummation of the transaction with IOWC, there was a change of control of our company.

In connection with the completion of the acquisition of the BioLargo technology on April 30, 2007, as approved by the Company s stockholders on March 15, 2007, the Company issued an aggregate 22,139,012 shares, or approximately 56.3% of the Company s issued and outstanding common stock, to IOWC, a company which Mr. Code controls. As a result of this issuance, combined with Mr. Code s previous stockholdings in the Company, Mr. Code controls 22,759,649 shares, or approximately 57.8% of the total voting power of the outstanding shares of our common stock, and is now the principal stockholder of the Company.

Because Mr. Code and an entity he controls hold the majority of our voting power, he can ensure the outcome of most matters on which our stockholders vote.

Under Delaware law, as a result of Mr. Code s stockholdings, he has the power to elect each of the members of our board of directors. Mr. Code also has the power to control the outcome of most matters requiring stockholder approval. This control may discourage certain types of transactions involving an actual or potential change of control of our company, such as a merger or sale of the company. Mr. Code is a member of our board of directors and also serves as an executive officer of our company.

Our common stock is thinly traded and largely illiquid.

Our stock currently trades on the Pink Sheets. Being traded on the Pink Sheets has made it more difficult to buy or sell our stock and has lead to a significant decline in the frequency of trades and trading volume. Continued trading on the Pink Sheets will also likely adversely affect the Company s ability to obtain financing in the future due to the decreased liquidity of the Company s shares and other restrictions that certain investors have for investing in Pink Sheet traded securities. While the Company intends to seek listing on the OTC Bulletin Board, there can be no assurance when or if the Company s common stock will be quoted on the OTC Bulletin Board.

The market price of our stock is subject to volatility.

Because our stock is thinly traded, its price can change dramatically over short periods, even in a single day. An investment in our stock is subject to such volatility and, consequently, is subject to significant risk. The market price of our common stock could fluctuate widely in response to many factors, including:

- developments with respect to patents or proprietary rights;
- announcements of technological innovations by us or our competitors;

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announcements of new products or new contracts by us or our competitors;

actual or anticipated variations in our operating results due to the level of development expenses and other factors;

changes in financial estimates by securities analysts and whether any future earnings of ours meet or exceed such estimates;

conditions and trends in our industry;

new accounting standards;

general economic, political and market conditions and other factors; and

the occurrence of any of the risks described in this Report.

You may have difficulty selling our shares because they are deemed penny stocks .

Because our common stock is not quoted on the Nasdaq National Market or Nasdaq Capital Market or listed on a national securities exchange, if the trading price of our common stock remains below $5.00 per share, trading in our common stock will be subject to the requirements of certain rules promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), which require additional disclosure by broker-dealers in connection with any trades involving a stock defined as a penny stock (generally, any non-Nasdaq equity security that has a market price of less than $5.00 per share, subject to certain exceptions). Such rules require the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated therewith and impose various sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and accredited investors (generally defined as an investor with a net worth in excess of $1,000,000 or annual income exceeding $200,000 individually or $300,000 together with a spouse). For these types of transactions, the broker-dealer must make a special suitability determination for the purchaser and have received the purchaser s written consent to the transaction prior to the sale. The broker-dealer also must disclose the commissions payable to the broker-dealer, current bid and offer quotations for the penny stock and, if the broker-dealer is the sole market-maker, the broker-dealer must disclose this fact and the broker-dealer s presumed control over the market. Such information must be provided to the customer orally or in writing before or with the written confirmation of trade sent to the customer. Monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. The additional burdens imposed upon broker-dealers by such requirements could discourage broker-dealers from effecting transactions in our common stock, which could severely limit the market liquidity of the common stock and the ability of holders of the common stock to sell their shares.

ITEM 2. DESCRIPTION OF PROPERTY

The Company s offices are located at 2603 Main Street, Suite 1155, Irvine, California 92614. The Company currently occupies space from a consultant at no cost to the Company.

ITEM 3. LEGAL PROCEEDINGS

In May 2004, the Company was sued by Flight Options, Inc. (Flight Options), a jet plane leasing company, in the Superior Court of Orange County California. The lawsuit alleges that the Company owes Flight Options approximately $418,300, pursuant to a five-year lease assigned to the Company by the Company s former president Todd Sanders, from his corporation, Devenshire Management Corporation (Devenshire). Management of the Company believes that the assignment of the lease was not properly authorized or approved by the Company, and that by Mr. Sander s failure to identify the lease in a December 2002 settlement agreement with the Company, he breached the terms of that settlement agreement and, pursuant to the settlement agreement, must indemnify the Company for any losses owed to Flight Options. The Company filed a cross-complaint against Mr. Sanders and Devenshire seeking indemnity and alleging Mr. Sander s breached his fiduciary duties in

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connection with the assignment of the lease. The Company s Legal Defense Agreement with the Augustine Fund applies also to the Flight Options litigation.

On March 17, 2005, the Company settled with Flight Options pursuant to a stipulation that would have allowed the Company to pay Flight Options $100,000 on or before August 5, 2005; if $100,000 was not paid by August 5, 2005, Flight Options could file a judgment against the Company for $163,310. The Company did not make a payment on or before August 5, 2005. Subsequently, the parties agreed that the Company would pay Flight Options a total of $116,000, which amount was paid. In exchange, Flight Options dismissed the case.

At about the time of the settlement with Flight Options, the Company, Mr. Sanders and Devenshire agreed to submit the matters in the cross-complaint, including the indemnity claim, to binding arbitration. On March 7, 2006, an arbitrator issued a binding award in favor of the Company and against Mr. Sanders for $120,000, and later added $55,000 in attorney fees and costs, for a total award of $175,000. On January 19, 2007, the Superior Court in the County of Orange, state of California, entered a judgment against Mr. Sanders and Devenshire for $184,095. The Company subpoenaed Mr. Sanders in an effort to determine the extent of his assets and ability to pay the judgment. Mr. Sanders did not respond to the subpoena and a bench warrant has been issued for his arrest. Because of Mr. Sanders refusal to cooperate with our legal efforts, the Company has not yet collected any amount towards satisfaction of the judgment and the Company can make no assurances it will be able to collect on the judgment.

Legal Fees in this matter have been paid by the Augustine Fund, pursuant to a Legal Defense Agreement between Augustine Fund and the Company. In January 2006, the Augustine Fund and the Company agreed to modify the terms of the Legal Defense Agreement to allow for both parties to share in any amounts which might be recovered from Sanders, on a percentage basis equal to the respective costs incurred by each party.

The Company is party to various other claims, legal actions and complaints arising periodically in the ordinary course of business. In the opinion of management, no such matters will have a material adverse effect on the Company s financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Note: All amounts are adjusted to reflect the Reverse Split.

Market Information

From October 31, 1998 until June 10, 2003, the Company s common stock was listed on the Nasdaq Small Cap Market. Since such date, the Company s common stock has been quoted on the Pink Sheets under the symbol NMED , until March 21, 2007, at which time it continued trading on the Pink Sheets under the symbol BLGO .

The table below represents the quarterly high and low bid prices for the Company s common stock for the last two fiscal years as reported by Bloomberg L.P., on a Reverse Split basis.

	2005		2006	
	High	Low	High	Low
First Quarter	$ 0.425	$ 0.175	$ 1.00	$ 0.25
Second Quarter	$ 0.375	$ 0.125	$ 0.75	$ 0.50
Third Quarter	$ 1.00	$ 0.175	$ 0.70	$ 0.325
Fourth Quarter	$ 0.625	$ 0.025	$ 0.625	$ 0.288

The closing bid price for the Company s common stock on May 1, 2007, was $0.70 per share. As of such date, there were approximately 406 registered owners and of the Company s common stock. The Company believes that the number of beneficial owners is substantially higher than this amount.

At December 31, 2006, the Company also had the following stock purchase warrants outstanding:

warrants to purchase an aggregate 246,336 shares of the Company s common stock, which warrants had been issued in a private offering to the Augustine Fund. These warrants initially allowed the holder to purchase shares of common stock at an exercise price of $4.00 per share through August 10, 2008, but were re-priced in 2004 (in conjunction with an extension of the financing provided by Augustine Fund) to $0.875 per share. There was no change to the expiration date of these warrants.

warrants to purchase an aggregate 13,333 shares of the Company s common stock, which warrants had been issued to a consultant that provided services to the Company. These warrants allow the holder to purchase shares of common stock at an exercise price of $1.50 per share through August 29, 2008.

warrants to purchase an aggregate 320,000 shares of the Company s common stock, which warrants had been issued to the Augustine Fund as consideration for the extension of the maturity date of the loan with the Augustine Fund. These warrants allow the holder to purchase shares of common stock at an exercise price of $0.125 per share through July 29, 2010.

warrants to purchase an aggregate 1,763,200 shares of the Company s common stock, which warrants had been issued in a private offering to 55 investors. These warrants allow the holder to purchase shares of common stock at an exercise price of $1.25 per share through January 31, 2008.

warrants to purchase an aggregate 704,008 shares of the Company s common stock, which warrants had been issued in a private offering to 21 investors. These warrants allow the holder to purchase shares of common stock at an exercise price of $1.25 per share

through September 13, 2009.

In addition, subsequent to December 31, 2006 and through April 25, 2007, we issued stock purchase warrants to purchase an aggregate 750,545 shares of the Company s common stock, which warrants had been

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issued in a private offering to 22 investors. These warrants allow the holder to purchase shares of common stock at an exercise price of $1.25 per share through September 13, 2009.

Dividends

The Company has never declared or paid a cash dividend to stockholders. The board of directors presently intends to retain any earnings which may be generated in the future to finance Company operations.

Sales of Unregistered Securities

Third Offering

In September 2005, the Company commenced a private offering that terminated in February 2006 (the Third Offering). From September 2005 through February 2006, the Company sold an aggregate amount of $1,102,000 of its promissory notes (the Third Offering Notes) due and payable January 31, 2007 to 55 investors. Each Third Offering Note bears interest at a rate of 10% per annum, and can be converted, in whole or in part, into shares of the common stock of the Company at an initial conversion price of $0.625 per share.

On March 21, 2007, the Company converted the entire aggregate principal amount of $1,102,000 Fall 2005 Notes, together with accrued and unpaid interested in the aggregate amount of $116,876, into an aggregate 1,950,202 shares of the Company s common stock at a conversion price of $0.625 per share.

Purchasers of the Third Offering Notes received, for no additional consideration, a stock purchase warrant (the Third Offering Warrant) entitling the holder to purchase a number of shares of Common Stock equal to the number of shares of Common Stock into which the Third Offering Note is convertible. The Third Offering Warrant is exercisable at an initial price of $1.25 per share, and will expire on January 31, 2008.

Fall 2006 Offering

In September 2006, the Company commenced a private offering that terminated in April 2007 (the Fall 2006 Offering). From October 1, 2006 through December 31, 2006, the Company sold an aggregate $484,000 principal amount of its promissory notes (the Fall 2006 Notes) due and payable September 13, 2008 to 21 investors. From January 1, 2007 through April 25, 2007, the Company sold an aggregate $516,000 principal amount of Fall 2006 Notes to 22 investors. Each Fall 2006 Offering Note bears interest at a rate of 10% per annum, such interest to be paid, at the Company s option, in cash or stock at an initial conversion rate of $0.6875 per share.

Purchasers of the Fall 2006 Notes received, for no additional consideration, a stock purchase warrant (the Fall 2006 Warrant) entitling the holder to purchase a number of shares of Common Stock equal to the number of shares of Common Stock into which the Fall 2006 Note is convertible. The Fall 2006 Warrant is exercisable at an initial price of $1.25 per share, and will expire on September 13, 2009.

All of these offerings and sales were made in reliance on the exemption from registration contained in Section 4(2) of the Securities Exchange Act and/or Regulation D promulgated thereunder as not involving a public offering of securities.

Other Issuances in 2006

In March 2006, the Company issued 4,800 shares of common stock in connection with the conversion, at the request of one stockholder, of 4,800 shares of convertible preferred stock.

In August 2006, the Company issued 620,637 shares of its Common Stock to Mr. Code, as additional consideration for Mr. Code s entering into the R&D Agreement.

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In October 2006, the Company issued 15,973 shares of common stock in connection with the conversion, at the request of one stockholder, of 15,973 shares of convertible preferred stock.

Securities Authorized for Issuance Under Equity Compensation Plans

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance (c)
Equity compensation plans approved by security holders	0	0	0
Equity compensation plans not approved by security holders	0	0	6,572,800(1)
Total	0	0	6,572,800(1)

(1) Consists of 572,800 shares, as adjusted to reflect the Reverse Split, issuable under the Company s 2004 Equity Plan (the 2004 Plan and 6,000,000 shares issuable under the Company s 2006 Equity Incentive Plan (the 2006 Plan). The 2006 Plan was adopted by the Company s board of directors on November 1, 2006 and will be presented to the stockholders of the Company for approval at the 2007 Annual Meeting of stockholders. Upon the adoption of the 2006 Plan, the 2004 Plan will be frozen and no further grants will be made under the 2004 Plan.

ITEM 6. MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion and analysis should be read in conjunction with our audited consolidated financial statements and the related notes to the consolidated financial statements included elsewhere in this report.

This discussion contains forward-looking statements that involve risks and uncertainties. Such statements, which include statements concerning future revenue sources and concentration, selling, general and administrative expenses, research and development expenses, capital resources, additional financings and additional losses, are subject to risks and uncertainties, including, but not limited to, those discussed above in Part I, Item 1 and elsewhere in this Annual Report, particularly in Risk Factors, that could cause actual results to differ materially from those projected. The forward-looking statements set forth in this Annual Report are as of December 31, 2006 unless expressly stated otherwise, and we undertake no duty to update this information.

Plan of Operation

Overview

We intend to focus our efforts primarily on the further research and development, and the licensing of the BioLargo technology for at least the next 12 months. We may also develop certain products incorporating the BioLargo technology ourselves, on a more limited basis, for use in certain applications and industries.

Commercialization of the BioLargo Technology

We plan to pursue our primary revenues from licensing the BioLargo technology, Subject to adequate financing, we may also produce some of our own products, although we do not presently intend to do so. Subject

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to regulatory compliance where applicable, the BioLargo technology is presently available for incorporation into certain products, including absorbent pads and materials to be used for clean up of or as a precautionary measure from spills of liquids, including hazardous materials. We are actively working with manufacturers, other technology developers and potential customers to develop additional products for distribution.

Our current business plan calls for us to license our BioLargo technology to others for incorporation into existing and newly-created products across numerous industry verticals. Currently, we do not intend to manufacture our own products. We intend to work with manufacturers on a contract-for-hire basis, or on a project by-project basis with the potential for these manufacturers to create a product supplier relationship for potential licensees of products incorporating the BioLargo technology. These collaborative efforts will focus on design and specifications for production of pre-commercial samples of products and for actual commercial products. However, while we have been engaged in extensive negotiations with numerous potential licensees and other users of products incorporating the BioLargo technology, there are no such agreements in place to date and therefore we cannot forecast when we will first generate revenues, if at all.

We intend to pursue commercial opportunities in both the United States and Europe initially.

Sales and Marketing

Over at least the next 12 months, we intend to devote a significant part of our resources to sales and marketing of the BioLargo technology to potential licensees. This is a continuation of the initial efforts we undertook during 2006. While specific efforts will vary based on market conditions and opportunities that present themselves from time to time, the following discussion of recent efforts is indicative of the types of efforts we expect to undertake on an ongoing basis. Our sales and marketing efforts are subject to obtaining adequate third-party financing, for which no commitments are yet in place.

In April 2006, we engaged Robert Stewart, Ph.D., to serve as the Company s regulatory specialist for required activities involving the EPA and the FDA. During this period, we also focused on establishing relationships with key agents who work on a commission basis to assist us in marketing to large corporations and other organizations. In May 2006, we hired a consultant to assist us on our marketing and sales efforts.

From February through April 2006, we began discussions with five major research universities to further our research for specific applications. These various discussions are ongoing and focus on engaging those universities to perform research on the BioLargo technology for soil and sand remediation, animal studies, United States Department of Defense applications, and embedded anti-microbial applications in textiles. In September 2006, we hired UCLA to research applications of the BioLargo technology for beach and soil remediation. An initial report regarding this research was presented in October 2006 at the National Beaches Conference sponsored by the EPA.

Throughout 2006, we engaged in various efforts to continue testing, developing and pre-marketing products incorporating the BioLargo technology. For example, in January 2006, we contracted with a third party manufacturer to produce samples for presentation purposes of absorbent pads. We also engaged a particle, formulations, blending and specialty manufacturing company to work with us in product development and sample fabrication. In June 2006, we hired a third-party laboratory to perform a series of independent test and issue their reports to assist us in validating the BioLargo technology to a GLP standard.

Throughout 2006, we also were actively involved in initial marketing activities for the BioLargo technology. For example, in February 2006, we presented the BioLargo technology to a number of major corporations for potential licensing discussions. Following an April 2006 international conference of industry for infection control in Prague, Czech Republic, attended by Mr. Code, we pursued with Mr. Code presentations to one of the largest companies in the embedded anti-microbial industry. In June 2006, we began discussions with a number of large healthcare companies about incorporating the BioLargo technology in their products. The

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potential areas of focus include wound dressings, drapes, wipes, bandages, diapers disinfecting and sterilization solutions, among other possible uses in their various products.

Also in June 2006, we participated in a conference for all government agencies throughout California and have since discussed the BioLargo technology for possible governmental use in sewage spills, water quality, rainwater runoff contamination problems and beach clean-up efforts. Also in June 2006, we participated in a national military defense conference sponsored by the National Defense Industry Association for all military services, including the Department of Homeland Security, and have since discussed the BioLargo technology for possible application in the areas of military hospitals, pandemic prevention, agricultural protection, hazardous waste, food protection, decontamination of porous and non-porous materials, disaster relief and national world class laboratory access. Subsequently, we have presented the BioLargo technology with other governmental officials and agencies. In September 2006, we attended a national Agro Terrorism Conference sponsored by the Federal Bureau of Investigation and the Joint Terrorism Task Force.

Meetings are continuing with numerous potential licensees or purchasers or other users of products incorporating the BioLargo technology in a range of applications. A number of prospective licensees are engaged in materials and product testing efforts, as well as discussions with us about product designs and various uses of the BioLargo technology. However, it is essential to note that we do not yet have any agreements in place with any of these potential licensees, purchasers or other users, or any other potential licensees, purchasers or other users, regarding any products incorporating the BioLargo technology, and no assurance can be given if any such efforts will prove successful or result in commercialization of the BioLargo technology.

Because of the global implications of the BioLargo technology, we intend to augment our U.S. operations with an operational and marketing presence in the EU, subject to obtaining adequate funding, which we are actively seeking but for which no commitment has yet been obtained.

As of April 30, 2007, none of the sales and marketing efforts discussed above has generated any revenue, there are no agreements in place and therefore we cannot forecast when we will first generate revenues, if at all.

Research and Development, Intellectual Property Protection and Third-Party Testing

We currently anticipate that research and development costs over the next 12 months could range significantly, between $300,000 and $1,000,000, and will be subject to third-party financing which we will require in order to execute our business plan. Although we are actively pursuing such financing, no such commitment is in place at present. We would invest any such funds primarily on continued testing of the BioLargo technology in certain applications and the development of additional production methods for use of the BioLargo technology.

In connection with the closing of the acquisition of the BioLargo technology in April 2007, we obtained full rights, title and interest to two U.S. patents previously owned by Mr. Code and IOWC. Mr. Code, IOWC and co-inventors of certain intellectual property had previously assigned six USPTO patent applications and two additional PCT patent applications to the Company. We intend to continue to expand and enhance our suite of intellectual property through ongoing focus on product development, new intellectual property development and patent applications, and further third-party testing and validations for specific areas of focus for commercial exploitation. We currently anticipate that additional patent applications will be filed during the next 12 months with the USPTO and the PCT, and we are uncertain of the cost of such patent filings, as it will depend upon the number of such applications prepared and filed. The prosecution of patents and ongoing maintenance and defense of patents is expensive and will require substantial ongoing capital resources. However we cannot give any assurance that adequate capital will be available or will be available, if at all, on favorable terms.

Ongoing research and development, and third-party testing, is a critical part of our business plan. These efforts can be time consuming and some of these efforts are costly, requiring adequate capital resources to

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continue such efforts. However we cannot give any assurance that adequate capital will be available or will be available, if at all, on favorable terms.

Results of Operations Comparison of the Years Ended December 31, 2006 and 2005

Revenue

We had no revenues from operations during either 2006 or 2005.

Selling, General and Administrative Expense

Selling, General and Administrative expenses were $1,633,000 for the year ended December 31, 2006, as compared to $1,000,000 for the year ended December 31, 2005. The largest components of these expenses were:

a. Salaries and Payroll-related Expenses: These expenses were $284,000 in 2006, compared to $220,000 in 2005, an increase of $64,000. The increase is primarily attributable to an increase in Calvert s salary per his employment agreement and a reduced salary related to Mr. Provenzano, the Company s Secretary, during 2006.

b. Consulting Expenses: These expenses were $719,000 in 2006, compared $324,000 in 2005, an increase of $395,000. The increase is primarily attributable to the increase in the Company s need for outside consultants, including Mr. Code, the inventor of the BioLargo technology, to assist the Company in preparing a comprehensive business plan for the commercialization of the BioLargo technology; with advising the Company in various respects regarding the BioLargo business and opportunities; further product development and design; financial, valuation and marketing services; licensing, initial marketing and pre-sale research and activities; and various other consulting services.

c. Professional Fees: These expenses were $398,000 in 2006, compared to $253,000 in 2005, an increase of $145,000. The increase is primarily attributable to an increase in (i) the Company s need for legal work related the BioLargo technology, including the multiple patent applications, as well as obtaining stockholder approvals and preparing for the closing of the transactions with IOWC and Mr. Code; (ii) accounting fees; and (iii) audit services.

d. Independent Director Compensation: These expenses were $80,000 in 2006, compared to $120,000 in 2005. The decrease is attributable to the decrease in the number of independent directors from three to two during 2006.

Research and Development

Research and development expenses were $130,000 for the year ended December 31, 2006, as compared to $0 for the year ended December 31, 2005. Research and development activities were conducted in 2005 by Mr. Code, and characterized as selling, general and administrative expenses. See discussion above. This increase is consistent with our plan to provide applications of the BioLargo technology for potential licensees or other customers in various vertical markets.

Interest expense

Interest expense totaled $559,000 for the year ended December 31, 2006, as compared to $242,500 for the year ended December 31, 2005, an increase of $316,500. This increase is attributed to the amortization of the value of warrants issued in conjunction with our convertible notes and additional accrued interest related to the outstanding convertible notes.

Reversal of Accrued Liability

The Company recorded a non-cash gain resulting from the reversal of accrued liabilities totaling $577,000 in 2006 compared to $55,000 in 2005. This increase was attributable to the dismissal of a lawsuit, which resulted in the reversal of an accrued liability totaling $308,000 and an additional $47,000 related to the settlement of the

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Flight Options case. The remaining reversal of accrued liabilities totaling $221,000 was the result of management s review of its accrued liabilities which it believes it is no longer obligated to pay. In 2005, management reviewed the Company s accrued liabilities and reversed an accrual for rental expense of $55,000, which it currently believes that the Company will no longer have to pay.

Net Loss

Net loss for the year ended December 31, 2006 was $1,525,000 or $0.56 per share, compared to a net loss for the year ended December 31, 2005 of $1,187,000 or $0.55 per share.

Liquidity and Capital Resources

We have been, and we will be, limited in terms of our capital resources. Cash and cash equivalents totaled $229,334 at December 31, 2006. We had no revenues in the year ended December 31, 2006 and were forced to use cash from financing activities to fund operations. Our cash position is insufficient to meet our continuing anticipated expenses or fund anticipated operating expenses. Accordingly, we will be required to raise additional capital to sustain operations and implement our post-acquisition business plan.

The financial statements accompanying this Annual Report have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of our business. As reflected in the accompanying financial statements, we had a net loss of $1,524,706 for the twelve-month period ended December 31, 2006, negative cash flow from operating activities of $1,315,628 for the twelve-month period ended December 31, 2006, and a stockholders deficit of $29,753,893 as of December 31, 2006. The foregoing factors raise substantial doubt about our ability to continue as a going concern. Ultimately, our ability to continue as a going concern is dependent upon its ability to attract new sources of capital, attain a reasonable threshold of operating efficiencies and achieve profitable operations by commercializing products incorporating the BioLargo technology. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

In order to meet operating expenses and other financial obligations, we have been forced to use cash on hand to fund our operations. We have also continued to sell convertible promissory notes to investors. During 2006, we raised $1,286,500 gross and net proceeds in two private offerings. This amount consisted of $802,500 which was raised in the Third Offering in the form of Third Offering Notes, and $484,000 which was raised in the Fall 2006 Offering in the form of Fall 2006 Notes. Additionally, subsequent to January 1, 2007, we raised an additional $516,000 in the Fall 2006 Offering. The Fall 2006 Offering terminated on April 25, 2007. See Part II, Item 5 Sales of Unregistered Securities . As described below, all of the Third Offering Notes were converted into shares of our common stock in March 2007. The Fall 2006 Notes remain outstanding.

As of December 31, 2006, we had outstanding approximately $4,726,693 aggregate principal amount, together with accrued and unpaid interest, on various promissory notes; and approximately $1,388,028 aggregate amount of payables owed to directors, officers and consultants.

Subsequent to the end of the year, we took significant steps to reduce our financial obligations. Following stockholder approval on March 15, 2007 for the recapitalization of our stock and the Reverse Split, we converted an aggregate principal amount of $1,953,120 and aggregate accrued but unpaid interest in the amount of $282,156, in respect of convertible notes held by 92 investors. These notes had various maturity dates and provided for various conversion prices ranging from $0.10 to $0.625 per share, as adjusted to reflect the Reverse Split and were converted into an aggregate 6,985,441 shares of our common stock, as adjusted to reflect the Reverse Split.

We also converted an aggregate $608,759 of accrued payables to five of our current or former officers and directors into an aggregate 1,623,359 shares of our common stock, as adjusted to reflect the Reverse Split. These conversions were effected at $0.375 per share, the closing price of a share of our common stock on the March 15, 2007 conversion date, as adjusted to reflect the Reverse Split.

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We also converted an aggregate $740,296 of accrued payables to 18 of our current or former consultants into an aggregate 1,803,615 shares of our common stock, as adjusted to reflect the Reverse Split. These conversions were effected at various prices ranging from $0.20 to $0.625 per share, as adjusted to reflect the Reverse Split. These conversions described in the preceding sentence were effected at various prices ranging from $0.20 to $0.625 per share, as adjusted to reflect the Reverse Split.

On April 11, 2007, the Augustine Fund converted an aggregate $717,138 of principal and accrued but unpaid interest on the Augustine Note into 2,031,553 shares of our common stock. The Augustine Note had a maturity date of May 1, 2007. The Augustine Note provided for a conversion price equal to the last bid price of the five trading days preceding the date of conversion, or $0.353 per share. The Augustine Note and the loan agreement in respect of the Augustine Note limited the Augustine Fund to hold not more than 4.9% of our issued and outstanding common stock at any given time. In connection with the conversion of the Augustine Note, we waived this limitation.

On April 13, 2007, New Millennium converted the $900,000 principal amount of the New Millennium Note into 1,636,364 shares of our common stock. The New Millennium Note had a maturity date of January 15, 2008. The New Millennium Note was converted at a price of $0.55 per share, which was the last bid price on the date of conversion. New Millennium is controlled by Dennis Calvert, the Company s President and Chief Executive Officer. As of April 13, 2007, accrued but unpaid interest in the amount of $380,658 remains outstanding on the New Millennium Note.

As a result of the foregoing transactions, we converted an aggregate $5,201,469 of obligations, consisting primarily of principal amount of notes, accrued and unpaid interest, salaries, fees and payables, into an aggregate 14,080,332 shares of our common stock. Of the $5,201,469 in obligations converted, $153,054 related to expenses recorded in 2007, and the remaining $5,048,415 related to expenses as of December 31, 2006.

Although we recently completed the Fall 2006 Offering to provide additional working capital, we currently estimate that net proceeds currently available from such offering will provide additional capital only until June 2007. We will be required to raise substantial additional capital to sustain our expanded operations following the acquisition of the BioLargo technology, including without limitation, hiring additional personnel, additional scientific and third-party testing, costs associated with obtaining regulatory approvals and filing additional patent applications to protect our intellectual property, as well as to meet our liabilities as they become due for the next 12 months, including the Fall 2006 Notes when they mature in 2008.

Accordingly, we are actively pursuing numerous alternatives for our current and longer-term financial requirements, including additional raises of capital from investors in the form of convertible debt or equity. Negotiations are underway with various sources of such capital. There can be no assurance that we will be able to raise any additional capital. It is also unlikely that we will be able to qualify for bank debt until such time as our operations are considerably more advanced and we are able to demonstrate the financial strength to provide confidence for a lender, which we do not currently believe is likely to occur for at least the next 12 months.

Significant Debt Obligations

Significant debt obligations at December 31, 2006 included:

(i) $420,000 due to the Augustine Fund, together with accrued but unpaid interest in the amount of $268,528, described in more detail below and which, as described above, was subsequently converted into 2,031,553 shares of our common stock in April 2007 based on the total amount due and owing on the conversion date;

(ii) a $900,000 note payable which was purchased in March 2003 by New Millennium, an entity owned and controlled by the Company s president, Dennis Calvert, and certain members of his family, together with accrued but unpaid interest in the amount of $362,375, described in more detail below and which

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principal amount, as described above, was subsequently converted into 1,636,364 shares of our common stock, with the accrued but unpaid interest thereon remaining outstanding;

(iii) amounts owed to Mr. Calvert personally in the aggregate amount of approximately $337,796, described in more detail below and which subsequently were converted into 900,790 shares of our common stock as part of the conversion of accrued payables by certain of our officers and directors as described above;

(iv) convertible promissory notes to various investors pursuant to private offerings, in the aggregate principal amount of $2,402,120**,** plus accrued and unpaid interest in the aggregate amount of $246,124, and of which amounts an aggregate $2,193,688, comprised of $1,918,120 principal and $275,568 accrued and unpaid interest as of the date of conversion was subsequently converted into 6,652,737 shares of our common stock as described above based on the total amount due and owing on the conversion date, and $484,000 of which remaining principal amount remains outstanding as of the date this Annual Report was filed and which is due in September 2008;

(v) $35,000 in remaining balance due to a former advisory board member, from a promissory note dated November 20, 2003 in the original principal amount of $65,000**,** described in more detail below, and which was subsequently converted into 332,704 shares of our common stock as part of the conversion of accrued payables by certain of our officers and directors as described above;

(vi) $25,000 remaining principal amount of a promissory note, together with accrued and unpaid interest in the amount of $5,849, relating to professional fees.

(vii) approximately $21,151 outstanding remaining on a settlement agreement with former convertible debenture holders, which amount remains outstanding.

For the year ended December 31, 2006, there was $923,473 of accrued interest recorded related to these obligations. During 2007, $521,240 of this amount was converted into shares of the Company s common stock.

Augustine Fund Note

On June 10, 2003 the Company entered into a Term Loan Agreement (Loan Agreement) with the Augustine Fund, pursuant to which the Augustine Fund agreed to lend the Company $420,000, payable in installments of $250,000, $100,000, and $70,000 (the Augustine Loan). The proceeds of the Augustine Loan were used by the Company for working capital.

Principal and interest, at an annual rate of 10%, of the Augustine Loan, was originally due on February 29, 2004. In addition, the Loan Agreement contains certain requirements that the Company make mandatory prepayments of the Augustine Loan from the proceeds of any asset sales outside of the ordinary course of business, and, on a quarterly basis, from positive cash flow. In addition, all or any portion of the Augustine Loan may be prepaid by the Company may prepay all or any portion of the Augustine Loan at any time without premium or penalty.

As additional consideration for making the Augustine Loan, the Augustine Fund received five-year warrants to purchase up to 246,336 shares of the Company s common stock at an exercise price of $4.00 per share, as both amounts are adjusted to reflect the Reverse Split. The Company could require that the warrants be exercised if certain conditions were satisfied. Since these conditions were not fully satisfied by the maturity date, the Loan Agreement provides that the Augustine Fund may, at any time following the maturity date and so long as the warrants remain exercisable, elect to exercise all or any portion of the warrants pursuant to a cashless exercise , whereby the Augustine Fund would be issued the net amount of shares of our common stock, taking into consideration the difference between the exercise price of the warrants and the fair market value of our common stock at the time of exercise, without having to pay anything to the Company for such exercise.

As security for the Augustine Loan, New Millennium, pledged 100,000 shares of the Company s common stock, as adjusted to reflect the Reverse Split, owned by New Millennium, and, in addition, the Company has

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granted the Augustine Fund a security interest in its 51% membership ownership interest in our now inactive wholly-owned subsidiary, NuWay Sports, LLC.

Prior to the original maturity date of the Augustine Loan, the Company spoke with representatives of the Augustine Fund and advised them that the Company was unable to pay the amount due under the Augustine Loan by the February 29, 2004 maturity date. On March 30, 2004, the Augustine Fund agreed to extend the maturity date of the Loan Agreement to August 2004. In addition to the extension of the maturity date, the Augustine Fund was given the option of having the Augustine Loan satisfied in cash or by the conversion of any remaining principal balance and any accrued interest on the Augustine Loan to shares of the Company s common stock at a 15% discount to market, so long as Augustine Fund s holdings do not exceed 4.9% of the total issued and outstanding shares of the Company s common stock at any time. In addition, the warrants held by the Augustine Fund to purchase 246,336 shares of the Company s common stock were re-priced to an exercise price of $0.875 per share, as adjusted to reflect the Reverse Split. Exercise of the warrants is also subject to the limit that the Augustine Fund does not hold more than 4.9% of the issued and outstanding shares of the Company s common stock. On March 7, 2005, the Company and the Augustine Fund agreed to extend the maturity date of the Augustine Loan to May 2006, in exchange for the issuance of a warrant that gives the Augustine Fund the right to purchase 320,000 shares of the Company s common stock at $0.125 per share for a period of five years, as both amounts are adjusted to reflect th