BIOLARGO, INC.
Form 10-K
March 31, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year ended December 31, 2008
OR

o **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) 643-9540
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

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company þ
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
The registrant had no revenues for the year ended December 31, 2008.
The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2008 was approximately $13,439,566 which is based on 12,217,787 shares of our common stock held by non-affiliates.

(Based upon the price at which the common equity was sold, or the average bid and asked price of such common equity for the last trading date prior to that date).

The number of shares outstanding of the issuer s class of common equity as of March 31, 2009 was 42,349,018.

Portions of the registrant s Information Statement in connection with actions to be taken by our majority shareholder in lieu of a 2009 Annual Meeting of Stockholders are incorporated by a reference in Part III hereof.

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PART I

ITEM 1. BUSINESS

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 , estimates , 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, 2008, unless expressly stated otherwise.

As used in this report, the term Company refers to BioLargo, Inc., a Delaware corporation, its wholly-owned subsidiary BioLargo Life Technologies, Inc., a California corporation (which may be referred to separately as BLTI), and a subsidiary formally dissolved in December 2007, NuWay Sports, LLC, a California limited liability company.

Our Business

Overview

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. The centerpiece of our BioLargo technology is CupriDyne , which works by combining minerals with water from any source and delivering free iodine on demand, in controlled dosages, in order to balance efficacy of disinfectant performance with concerns about toxicity.

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In addition to our BioLargo technology, in 2008 we acquired the rights to market an iodine based water disinfection system (the Isan system) from Ioteq IP Pty. Ltd., an Australian company, and its U.S. affiliate Ioteq Inc. (see Strategic Alliance with Ioteq below). The Isan system is an automated water disinfection system that substantially reduces the incidence of fungal growth, spoilage, organisms and pathogens in water and on food. Capable of treating high volumes of water flow, the Isan system is a combination of electrodes for measuring iodine levels in the target water stream, a control unit which automatically controls the running of the system, iodine canisters to deliver the iodine, and resin canisters to collect by-products after disinfection has been completed. The Isan system is registered with the APVMA (Australian Pesticides and Veterinary Medicines Authority) and FSANZ (Food Standards Australia and New Zealand) in Australia and New Zealand, where it has approximately 150 customer installations currently operating. Both our BioLargo technology and the Isan system have potential commercial applications within global industries, including but not limited to agriculture, animal health, beach and soil environmental remediation, consumer products, food processing, medical, and water industries. While we believe the potential applications are many, we are currently focused in two primary areas the development of certain products designed for the animal health industry, and agriculture.

First, we are focused on commercializing our BioLargo technology and the Isan system in products applicable to the agriculture industry. We are actively seeking to secure strategic partners to either license or partner with to exploit commercial opportunities for CupriDyne and for the Isan system. The Isan related opportunities are focused primarily on post-harvest treatment of fruits and vegetables, irrigation supply, and hydroponic growers. We continue to work with a number of very large global companies who are engaged in technology evaluation and testing processes. Simultaneously, we are also actively seeking to identify and negotiate regional or global partnerships to exploit commercial opportunities for these technologies. No such regional or global partnerships have been formed at this time, and we can make no representation about its ability to successfully conclude such partnership arrangements.

Second, in 2008, we began development of three products incorporating our BioLargo technology under the brand name Odor-No-More . We have recently begun to test market the products in the animal health industry. The primary benefits of the three products are odor and moisture control. In 2009, we intend to continue to develop and test market the three products, and, if the test marketing is successful and if we are adequately financed, launch the products commercially.

Although we are focused primarily on odor control products and agriculture, we also intend to continue to advance our intellectual property, product designs and licensing opportunities for our technology for use in other industries, as capital resources are available to support these efforts.

Corporate

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 certain intellectual property and other assets from IOWC Technologies, Inc. (IOWC ; see Acquisition of the BioLargo Technology , below), we changed our name to BioLargo, Inc.

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On March 15, 2007 our 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 our certificate of incorporation was filed on March 16, 2007 with the Secretary of State of the State of Delaware. Following our name change, we obtained a new trading symbol, BLGO . Our common stock continued to trade through the National Quotation Service Bureau, commonly known as the Pink Sheets , under our new trading symbol BLGO , from March 21, 2007 through January 22, 2008. Since January 23, 2008, our common stock has been quoted on the OTC Bulletin Board under the trading symbol BLGO .

Also on March 15, 2007, our stockholders approved, and effective as of the close of business on March 19, 2007, we completed, a 1-for-25 reverse split of our common stock. Additionally, on March 15, 2007, our stockholders approved and we have filed, an amendment to our 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.

Our executive offices are located at 2603 Main Street, Suite 1155, Irvine, California 92614 and our telephone number at that location is (949) 643-9540. 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).

Benefits of Free Iodine Technologies

We believe that our BioLargo technology and the Isan system, which is also a free iodine technology, generally offer the following beneficial features, among others:

Environmentally Friendly Our BioLargo technology and the Isan system feature a scientifically proven effective disinfectant free iodine (also an essential nutrient) which is recognized as part of nature s natural cycle of sanitization. The Isan system also recaptures disinfection-by-products in many of its applications. Both are green technologies.

Inorganic Solution The use of iodine in our BioLargo technology and the Isan system is strategically important because free iodine is generally considered to be the most effective and potent 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-Deodorization The chemical composition of our BioLargo technology and free iodine delivered by the Isan system when incorporated into products or used in a treatment system, deploys an additive germ killing strategy, that includes a flashing of iodine (as with our CupriDyne technology), or a controlled dose in either the CupriDyne technology of Isan system and when used in absorbent products, the CupriDyne technology also lowers PH levels, which creates an acidic environment, oxidation, and flocculation (or a binding reaction to lock in the microbes), as well as effective odor control features.

Increased Holding Power Our 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.

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Generally Recognized as Safe (GRAS) and Generally Recognized as Safe and Effective (GRASE)) The actual chemicals used, in both CupriDyne and the Isan system, as well as the byproduct of the chemical reaction, in our CupriDyne technology, are understood by the U.S. Food and Drug Administration (FDA) and the scientific community generally as non-toxic and safe, when delivered within a range of dosages prescribed by the FDA. Iodine is also considered GRASE for its antimicrobial, sanitizing, disinfecting or sterilizing capabilities in appropriate product applications.

Price The cost of raw materials is not expected to add significantly to the cost of production of products incorporating our BioLargo technology. Additionally, we believe that the incorporation of our 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, anti-microbial capabilities and deodorizing 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 our BioLargo technology in non-absorbent applications will be more cost effective than iodine alternatives, such as chlorines and bromines or many other complex chemical compounds. The Isan system is competitively priced as compared to other disinfection technologies, including chlorine.

Safety and Automation -The Isan system is safe and user-friendly. Its controller module is able to warn the operator of any breach of preset levels and also, in certain circumstances, can shut down the system. These warnings can be audible, visual and/or sent electronically to a telephone or a computer. It has automatic monitoring and dosing capabilities on a continual basis. The controller module monitors and reports; functionality, dosing, supply of disinfection chemicals, maintenance, dosing treatment records for quality assurance and traceability.

Lower Corrosion- Free Iodine as featured in CupriDyne and the Isan system is less corrosive than Chlorine which may help extend the useful life of capital equipment as compared to chlorine systems.

Less pH Sensitivity- The Isan system operates effectively within a broad range of pH, as compared to Chlorine, which can help reduce labor costs and can help improve quality assurance and traceability when used in a food sanitization system, as compared to chlorine systems.

We plan to generate our primary revenues from technology licensing, and may also generate revenues from the sale of our Odor-No-More products, depending on how effectively we are able to develop marketing, sales and distribution resources, which will primarily depend on adequate capital resources. We do not currently intend to manufacture our own products, but rather intend to contract with third parties to manufacture our Odor-No-More products.

Strategic Alliance with Ioteq

In August 2008, we entered into a marketing and representation agreement (the Marketing Agreement) with Ioteq IP Pty, Ltd., an Australian company, and its United States affiliate Ioteq Inc. (collectively, Ioteq), pursuant to which we will represent and market Ioteq s iodine-based disinfection technology, Isan®, on an exclusive basis in the United States and on a non-exclusive basis in the rest of the world, with respect to seeking, identifying, introducing and negotiating various business opportunities.

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We are obligated to make monthly payments to Ioteq of $20,000 per month commencing September 1, 2008. For our efforts in seeking, identifying, introducing and negotiating business opportunities, Ioteq shall reimburse us our actual out-of-pocket costs incurred and pay us a royalty as follows:

(i) 40% of net revenue (as defined in the Marketing Agreement) received or earned by, or paid to, Ioteq, whether in cash or other property, derived directly or indirectly from each business opportunity where Ioteq incurs actual expenses in connection with the manufacture of products for such business opportunity; or

(ii) 40% of all gross amounts received or earned by, or paid to, Ioteq, whether in cash or other property, derived directly or indirectly from each other business opportunity, including without limitation licensing and distribution agreements and arrangements.

No such transactions have yet been negotiated or entered into.

Odor-No-MoreÔ

During 2008 we identified and began development of three products incorporating our BioLargo technology targeted to the animal health marketplace, the primary product advantage being odor control. We expect that additional products may be identified in the future. We began to work with potential customers and distributors with these products to gather feedback, evaluate effectiveness and develop a marketing strategy and product claims portfolio. We are actively test marketing the following products under the Odor-No-More brand:

1. Animal Bedding Additive
2. Cat Litter Additive
3. Facilities and Equipment Wash

The primary benefit of each product is the ability to eliminate odors, perform rapidly, and hold moisture more effectively than competing products. The Animal Bedding Additive and Cat Litter Additive also contain super absorbent materials, and extend the useful life of the customer s current bedding or litter products for their animal care needs. Each product has other potential benefits for the customer all of which focus on helping owners keep their animals clean, dry, safe and healthy. We intend to continue our test marketing efforts. If our test marketing is successful, and we are adequately capitalized, we intend to launch these products commercially.

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 our BioLargo technology for their manufacture and performance. He continues to research methods and applications to continue to expand the potential uses of our 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.

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We spent $113,748 in 2008 and $131,349 in 2007 on research and development activities. 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.

We believe that our research and development expenditures over the next 12 months could vary significantly and will depend upon our access to capital, 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 our BioLargo technology in certain applications and the development of additional production methods for use of our BioLargo technology in certain applications.

Independent Laboratory and Scientific Testing

We work 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 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 may be relied upon by regulatory agencies for making efficacy, safety and risk assessments.

ATS has performed several studies on our behalf since July 2006 to explore the antimicrobial performance of our BioLargo technology with various pathogens at a range of dosages and contact times to determine the most effective and economical disinfection/sanitizing application conditions for our BioLargo technology. Further testing is currently underway and 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 our BioLargo technology for the disinfection of microbially contaminated sand. Suspension testing of the iodine generated by our BioLargo technology in water showed that our 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.

In July of 2008, as a follow up to the work at UCLA, we began a research project with the University of Hawaii to study CupriDyne to evaluate its effectiveness as part of a solution to remediate beach contamination. The study is being conducted by Dr. Roger Fujioka at the University of Hawaii s Water Resources Research Center, at the request of the State s Department of Health and the City and County of Honolulu. These agencies have expressed interest in the results of the study and CupriDyne s potential to help remediate beach contamination. The study will evaluate the effectiveness of CupriDyne to disinfect multiple microorganisms commonly found at contaminated beaches, including E. coli, using standards established by the United States Environmental Protection Agency. The project is currently underway.

Oregon State University completed a study of our BioLargo technology for use in certain agricultural applications in November 2007. The testing focused on the use of our BioLargo technology as a soil treatment application and provided evidence of our BioLargo technology s efficacy for uses designed to control certain pests which are harmful to food crops, while preserving other microscopic life that is beneficial to food crops.

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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 our BioLargo technology. Absorbency tests were run to measure how much liquid absorbent material incorporating our BioLargo technology would hold. These tests confirmed the rate of absorption by size and weight of absorbent material incorporating our BioLargo technology. Holding capability was determined in what is referred to as a re-wet test, in which previously wetted absorbent material incorporating our BioLargo technology was subjected to pressure to determine how much liquid escaped the material. This test concluded our BioLargo technology significantly increased the holding power of absorbent material as compared with comparable absorbent material not treated with our 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 we cannot give any assurance that adequate capital will be available or, if available, will be available on favorable terms.

Manufacturing

We do not presently intend to manufacture our own products in the event of full scale commercialization. Rather, we intend to either license our BioLargo technology, under strict quality control standards, to others for incorporation into existing and newly-created products, or contract third parties to manufacture products under our own brand. 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 our 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 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 our 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 $16,000 in 2008 and $20,000 during 2007 for projects they have undertaken 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 our 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.

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We are currently negotiating with third party material components providers and manufacturers, and equipment manufacturers, to broaden the scope of application, manufacture and uses of our BioLargo technology.

Sales and Marketing

We intend to devote a significant part of our resources to sales and marketing of our BioLargo technology and the Isan system to potential licensees. Our anticipated efforts with regard to our BioLargo technology is a continuation of the initial efforts we have undertaken since 2006, however we are now active in the work to support existing technology evaluation and testing agreements already in place as well as maintaining a working relation with various potential licensing companies already working with our technology.

During 2008, we invested considerable time training our staff and networking throughout the world to present the Isan system for potential licensure and partnership opportunities and those efforts are expected to continue over the next 12 months, assuming adequate financial resources are available.

During 2008 we identified and developed three potential products under the Odor-No-More brand incorporating our BioLargo technology targeted to the animal health marketplace, the primary product advantage being odor control. We began to work with potential customers and distributors with preliminary products to gather feedback, evaluate effectiveness and develop a marketing strategy and product claims portfolio. We are actively test marketing these products.

In 2009, if our test marketing efforts are successful, we intend to commercially launch our Odor-No-More products, and increase our sales and marketing efforts of the products to individuals and companies that serve the animal health industry, including retail outlets and possibly direct to end users. We believe larger regional and national distribution companies may eventually have an interest in distributing our Odor-No-More products, but no such agreements are in place, nor can we predict whether we will be able to secure such relationships. We intend to recruit and train distributors, sales agents, and retail accounts to build distribution and sales. The launching of a new product is time consuming and capital intensive, so our success in these areas is highly dependent upon obtaining adequate capital resources, for which we have no commitments at this time.

Product Evaluation Agreements

Amendment of Syngenta Product Evaluation Agreement

Effective October 3, 2007, we entered into a product evaluation agreement (the Syngenta Agreement) with Syngenta Crop Protection, Inc. (Syngenta). Effective October 1, 2008, Syngenta and we amended the Syngenta Agreement (the Syngenta Amendment).

Under the Syngenta Agreement, Syngenta had the exclusive right to conduct, and has been conducting, initial evaluation and laboratory testing of our BioLargo technology for its commercial utility in a field of use consisting of various specified agrochemical and similar applications. An initial milestone payment was paid by Syngenta to us for this initial evaluation and testing, and in exchange we have agreed not to engage in any negotiations or testing with other parties related to the specified field of use. The Syngenta Amendment makes the rights granted by us to Syngenta non-exclusive effective October 1, 2008.

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Additionally, the Syngenta Agreement provides that, should Syngenta elect to proceed further to field testing or commercial development of a product in a specified field of use, the parties will negotiate with each other exclusively and in good faith additional agreements and milestone payments for such specific selected uses. The Syngenta Amendment provides that the parties will determine whether or not such further testing or development will be conducted on an exclusive or non-exclusive basis. In the event that the parties proceed with non-exclusive further testing or development, we will be free to pursue additional opportunities for the same applications of our BioLargo technology and Syngenta will not be obligated to make additional milestone payments to us.

Should Syngenta then elect to commercialize a product based on our BioLargo technology, the parties will have 12 months from the completion of product development for any selected application to negotiate with each other exclusively and in good faith and enter into a commercial license agreement for such selected application. Should Syngenta elect not to proceed at any stage, we shall thereafter be free to seek alternative routes to commercialization and alternative partners for applications in the specified field of use.

Syngenta will not obtain any rights to any portion of our BioLargo technology as a result of the Syngenta Agreement itself. However, the Syngenta Agreement does provide how rights to new inventions will be managed during the term of the initial evaluation and testing. Title to all new inventions made by the Company resulting from the work performed under the Syngenta Agreement shall reside in the Company. Title to all new inventions made by Syngenta resulting from the work performed under the Syngenta Agreement shall reside in Syngenta. Title to all inventions and discoveries made jointly by Syngenta and the Company resulting from the work performed under the Syngenta Agreement shall reside jointly in Syngenta and the Company. Inventorship shall be determined in accordance with U.S. Patent law, as the same may exist from time to time.

Additionally, among other things, the parties have agreed to keep each other s information and materials confidential; have provided for the manner in which patent applications shall be filed with respect to any new inventions; and have agreed to mutual indemnification.

The term of the Syngenta Agreement, as modified by the Syngenta Amendment, expires on June 30, 2009 unless terminated sooner by either party upon 60 days prior written notice.

CPPW Agreement

Effective September 6, 2007, we entered into a product evaluation agreement (the CPPW Agreement) with Johnson & Johnson Consumer and Personal Products Worldwide (CPPW), a division of Johnson & Johnson Consumer Companies, Inc.

During 2008, CPPW evaluated our BioLargo technology for possible application in certain specific CPPW product lines. In the product evaluation, CPPW failed to identify a specific product of focus it wished to pursue at this time. We and CPPW are continuing technical discussions. CPPW is under no obligation to pursue any subsequent business with us or to develop or commercialize a product incorporating our BioLargo technology.

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.

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Our BioLargo technology and products incorporating our BioLargo technology would compete with many other applications currently on the market, as would the Isan system. 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 and the Isan system. 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 our 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 limited to deodorization, or enhanced holding or absorption capabilities only. We believe that such claims are not subject to FDA or EPA regulation. We believe that the Isan system will require either or both FDA and EPA approval prior to use in the United States, depending on the particular use.

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 we or others obtain any required approvals from the FDA, EPA or other Federal or state regulatory bodies, we may not be able to generate commercial revenues. Certain specific regulated applications require highly technical analysis, additional third party validation and will require regulatory approvals from agencies like the FDA. Accordingly, we can give no assurance as to the ultimate success in obtaining the necessary approvals from either the EPA or FDA. Under most licensing arrangements that we anticipate, it is the licensee who would bear the responsibility of all regulatory compliance, including good manufacturing process certifications for certain medical applications.

Intellectual Property

We regard our intellectual property as critical to our ultimate success. We worked closely with Mr. Code and IOWC prior to the completion of the acquisition of certain intellectual property and assets from IOWC in April 2007 and have continued to work with Mr. Code since that time in his capacity as our Chief Technology Officer, to identify technology improvements and additional patent opportunities that expand on and enhance the original patents issued. At the same time, we have worked to secure additional third-party testing and validations for the efficacy and product claims associated with our BioLargo technology, namely through our work with ATS, the University of Hawaii, the Department of Environmental Engineering at UCLA and Oregon State University.

In connection with the closing of the acquisition of certain intellectual property and other assets in April 2007, we 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 to us six USPTO patent applications and two additional PCT patent applications.

Our BioLargo technology consists 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. Seven additional patent applications have been filed with the United States Patent and Trademark Office (USPTO) and three additional patent applications have been filed with the International Patent Cooperation Treaty (PCT) relating to our BioLargo technology. Our BioLargo technology also includes know-how and trade secrets, which, together with our intellectual property, contribute to our expertise in product design, manufacturing, product claims, safety features and competitive positioning of products that feature our BioLargo technology. The BioLargo technology was originally developed by Kenneth Reay Code, our Chief Technology Officer, a director and our principal stockholder.

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We believe that this suite of intellectual property covers the presently targeted major areas of focus for our licensing strategy. The description of our 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 our 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 our 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 11/973,933 (filed October 11, 2006), relating to the use of our BioLargo technology for antimicrobial protection, in environments such as offices, vehicle cabs, 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 12/001,073 (filed December 8, 2006), relating to the use of our BioLargo technology as a treatment of environments including fields, lawns, parks, orchards, farm fields, greenhouses to provide at least pesticidal activity.

USPTO Patent Application 12/009,586 (filed January 18, 2007), relating to use of our 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 12/012,297 (filed February 8, 2007), relating to the use of our 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.

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USPTO Patent Application 12/220,484 (filed July 24, 2008), relating to the use of an article for application to a surface to provide antimicrobial and/or anti-odor activity. At least one of the reagents is coated with a water-soluble, water dispersible or water-penetrable covering that prevents ambient conditions of 50% relative humidity at 25ºC from causing more than 10% of the total reagents exposed to the ambient conditions from reacting in a twenty-four hour period

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 USPTO patent application 60/900,374 and its associated claims.

PCT/US Patent Application filed December 3, 2008), claiming priority from USPTO patent application 12/001,073 and its associated claims.

Subject to adequate financing, 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, 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 we cannot give any assurance that adequate capital will be available or will be available, if at all, on favorable terms.

Details of the acquisition of certain intellectual property and assets, including a summary of the Asset Purchase Agreement we entered into with IOWC and Mr. Code, and other agreements we entered into in connection with the consummation of this acquisition, can be found below under Acquisition of the BioLargo Technology .

Acquisition of the BioLargo Technology

On April 30, 2007, we completed the acquisition of certain intellectual property and other assets from IOWC. 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;

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- 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 USPTO and two additional patent applications filed with the PCT. Prior interim agreements between the Company and IOWC or Mr. Code were terminated concurrently 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.

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.

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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.

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 consummation of the acquisition of certain intellectual property and other assets from IOWC, 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 $184,800 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 health 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.

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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 certain intellectual property and other assets from IOWC and the execution of the Code Employment Agreement, Mr. Code was also elected to the Board of both BioLargo and BLTI.

Consulting Agreement for Investor Relations Services

On November 6, 2008, we entered into an agreement (the IR/PR Agreement) pursuant to which a consultant (the IR/PR Consultant) will provide certain consulting and advisory services to us in the areas of shareholder communications, public relations and relations with the investment community generally. The IR/PR Agreement is on a month-to-month basis until either party terminates it upon 30 days prior written notice to the other party.

For the services to be provided by the IR/PR Consultant, we have agreed to pay him a consulting fee of: (i) $3,500 per month in cash, (ii) 50,000 shares of our common stock, issued as of the effective date of the IR/PR Agreement, and (iii) a warrant (the IR/PR Consultant s Warrant) to purchase 250,000 shares of our common stock, exercisable at $1.00 per share, and which shall expire October 31, 2011. The IR/PR Consultant s Warrant shall vest as follows: five (5) equal installments commencing on November 30, 2008 and continuing on each last day of the succeeding four months (each, a Vesting Date); provided that no portion of the IR/PR Consultant s Warrant shall vest if the IR/PR Consultant is not, on a Vesting Date, providing services to us.

The IR/PR Agreement also contains various provisions customary for transactions and agreements of this type. The IR/PR Consultant has also entered into a non-disclosure agreement with us.

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Executive Officers

As of December 31, 2008 our executive officers were:

Dennis Calvert: Chief Executive Officer, President and Chairman of the Board
Charles K. Dargan: Chief Financial Officer
Kenneth Reay Code: Chief Technology Officer
Joseph Provenzano: Corporate Secretary and Vice President of Operations

Employees

As of December 31, 2008, we employed three full-time employees. We also hire, on an as needed basis, consultants who provide certain specified services to us.

ITEM 1A. 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 significant revenues, have a history of losses, and cannot assure you that we will ever become or remain profitable.

We have not yet generated any significant 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 continuing research and development, product development, and sales and marketing efforts, and our ability to successfully license our BioLargo technology and/or the Isan system. 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.

Our cash requirements are significant and our operating expenses are increasing. The failure to raise additional capital will have a significant adverse effect on our financial condition and its operations.

Our cash requirements and expenses have been increasing and have been and will continue to be significant. Our net cash used from continuing operations for the years ended December 31, 2008 and 2007 was $1,899,034 and $1,287,525, respectively. These negative cash flows are primarily related to operating losses and, to a lesser extent, fluctuations in working capital items. As disclosed elsewhere in this Report, we will continue to use cash in 2009 as it becomes available and we will require significant additional financing for working capital requirements for the remainder of 2009 and for the foreseeable future to continue the development, marketing and licensure of our technology. Although we have been successful in raising funds in the past, there can be no assurance that we will be able to successfully raise funds in the future, especially in light of current adverse conditions in the capital markets and the weak economy generally. The failure to raise additional capital will have a significant adverse effect on our financial condition and its operations.

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To meet some of our increased operating expenses, we have agreed to issue securities or we have the option to issue securities in lieu of paying cash for these services. These issuances are dilutive to our existing stockholders.

Under the terms of our sublease agreement for our principal office and the IR/PR Agreement, we are either obligated to issue or may issue, at our option, securities rather than cash as payment of our obligations. We are also a party to other agreements that provide for the payment of, or permit us to pay at our option, securities in consideration for services provided to us. All such issuances are dilutive to our stockholders because they increase the total number of shares of our common stock issued and outstanding, even though such arrangements assist us with managing our cash flow at a time of increasing operating expenses coupled with decreased and further decreasing liquidity.

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 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 several specific business opportunities we are considering in further development of our business. None of these opportunities is yet the subject of a definitive agreement and most or all of these opportunities will require additional funding obligations on our part, for which funding is not currently in place.

In furtherance of our business plan, we are presently considering a number of opportunities to promote our business, to further develop and broaden, and to license, our technology with third parties. While discussions are underway with respect to such opportunities, there are no definitive agreements in place with respect to any of such opportunities at this time, other than the product evaluation agreement discussed in further detail. There can be no assurance that any such opportunities being discussed will result in definitive agreements or, if definitive agreements are entered into, that they will be on terms that are favorable to us.

Moreover, most if not all of these other opportunities, should they result in definitive agreements being entered into, would require us to expend additional monies above and beyond our current operating budget to promote such endeavors. No such financing is in place at this time for such endeavors and we cannot assure you that any such financing will be available, or if it is available whether it will be on terms that are favorable to the company.

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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, has 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.

We are not in compliance with required internal controls and procedures.

The SEC requires that we evaluate, document and test our internal control procedures under Section 404 of the Sarbanes-Oxley Act and the related rules of the SEC for the year ended December 31, 2008. 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. Under rules issued by the SEC, as currently in effect, our auditors are required to evaluate, document and test our internal control procedures under Section 404 of the Sarbanes-Oxley Act and the related rules of the SEC for the year ended December 31, 2009. 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.

There are significant risks relating to our BioLargo technology.

Our BioLargo technology is at an early stage of development. There is a risk that our BioLargo technology will not be commercially feasible or, even if our BioLargo technology is commercially feasible, it may not be commercially accepted. In addition, many products incorporating our 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 our 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 our 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 with an unproven business strategy, our limited history of operations makes evaluation of our 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 from product evaluation and/or product development agreement