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.

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.

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.

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.

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 agreements, and eventually from licensing our BioLargo technology, as well as 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 dependent upon our efforts to deliver a viable product and our ability to successfully bring it to market. Although our management is optimistic that we will succeed in licensing our 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.

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

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

Many of the products incorporating our BioLargo technology will require regulatory approval.

The products in which our 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 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. Certain applications may also be subject to additional state and local agency regulations, increasing the cost and time associated with commercial strategies. Additionally, most products incorporating our BioLargo technology that may be sold in the European Union (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, material components or delivery apparatus used in our 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 our 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 our 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.

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

To the extent that we rely on other companies to manufacture the chemicals used in our BioLargo technology, or sell or market products incorporating our 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 our 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 our BioLargo technology or products incorporating our BioLargo technology do not gain market acceptance, it is unlikely that we will become profitable.

The potential markets for products into which our technology can be incorporated are rapidly evolving, and we have many successful competitors. At this time, our BioLargo technology is unproven in its commercial use, and the use of our BioLargo technology by others is nominal. The commercial success of products incorporating our BioLargo technology will depend upon the adoption of our BioLargo technology by commercial and consumer end users in various fields.

Market acceptance may depend on many factors, including:

- the willingness and ability of consumers and industry partners to adopt new technologies;
- our ability to convince potential industry partners and consumers that our 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 our BioLargo technology, in sufficient quantities with acceptable quality and at an acceptable cost; and
- our ability to license our BioLargo technology in a commercially effective manner.

If products incorporating our BioLargo technology do not achieve a significant level of market acceptance, demand for our 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 our BioLargo technology;
- changes in the demand for, and pricing, of products incorporating our 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 fluctuate significantly in 2009 and beyond, as we continue our research and development, and increase our marketing and licensing activities. Although we expect to generate revenues from licensing our 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.

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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 Dennis Calvert, our president and chief executive officer, and Kenneth Reay Code, our chief technology officer. The loss of the services of either of these officers or other 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.

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, potential licensing partners, potential manufacturing partners, testing facilities, universities, 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.

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The licensing of our BioLargo technology or the manufacture, use or sale of products incorporating our 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;
- 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.

Our patents are expensive to maintain, our patent applications are expensive to prosecute, and 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 our BioLargo technology may not result in the issuance of any patents or any issued patents that will offer protection against competitors with similar technology. We must employ patent attorneys to prosecute our patent applications both in the United States and internationally. International patent protection requires the retention of patent counsel in multiple foreign countries and the payment of patent application fees in multiple foreign countries. Without adequate capital, we may be unable to apply for international protection of our existing United States patent applications. 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.

Over time, 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 our 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 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 our BioLargo technology. Nonetheless, such parties, or their successors or assigns, could make claims of rights of ownership to all or some portion of our 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 our 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.

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.

In connection with the completion of the acquisition of certain intellectual property and other assets from IOWC 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 then 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 then total voting power of the outstanding shares of our common stock, and is now the principal stockholder of the Company.

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 the Company.

Our common stock is thinly traded and largely illiquid.

Our stock is currently quoted on the OTCBB. Being quoted on the OTCBB has made it more difficult to buy or sell our stock and from time to time has lead to a significant decline in the frequency of trades and trading volume. Continued trading on the OTCBB 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 OTCBB traded securities. While the Company intends to seek listing on the Nasdaq Stock Market (Nasdaq) or another stock exchange when the Company is eligible, there can be no assurance when or if the Company s common stock will be listed on Nasdaq or another stock exchange.

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;
- 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.

We may not receive any proceeds from the Spring 2008 One-Year Warrants.

We have reduced the exercise price of the Spring 2008 One-Year Warrants to $0.50 per share. However, this is still higher than the current market price of our common stock. On March 27, 2009, the closing price of our common stock as quoted on the Over-the-Counter Bulletin Board was $0.48 per share. The expiration date of the Spring 2008 One-Year Warrants is March 31, 2009. There is no guarantee that holders of the Spring 2008 One-Year Warrants will exercise those warrants before their expiration under any circumstances. However, unless the market price of our stock rises above the exercise price of the Spring 2008 One-Year Warrants before March 31, 2009, the likelihood that the holders of the Spring 2008 One-Year Warrants would not exercise those warrants increases. Because our capital resources remain extremely limited, the failure of the holders of the Spring 2008 One-Year Warrants to exercise those warrants would have a material adverse effect on our capital resources, cash flow and overall financial condition.

We may have violated certain securities laws in the course of our Fall 2008 Offering.

We may have violated certain disclosure requirements under Federal securities laws in the course of our private offering that commenced October 15, 2008 (the Fall 2008 Offering). After preparing and distributing the original Offering Memorandum dated October 15, 2008, we filed a Current Report on Form 8-K dated November 12, 2008 (the November 8-K) with the SEC and we filed our Quarterly Report on Form 10-Q for the period ended September 30, 2008 (the Third Quarter 10-Q). We filed both of these reports timely with the SEC but we did not provide a copy of the November 8-K and we may not have correctly provided a copy of the Third Quarter 10-Q to investors in the offering. In addition, on January 16, 2009, our Board of Directors amended the terms of the Fall 2008 Offering and amended the terms of warrants that we previously sold in a prior private offering of our securities. We should have filed a Current Report on Form 8-K with the SEC within four business days following the amendment of the terms of the warrants, but we omitted to do that. We did not file such Current Report on Form 8-K until February 19, 2009. The investors in the offering were entitled to have all such information before making their investment decision.

If we violated certain securities laws in the course of Fall 2008 Offering, investors who have already invested in the Fall 2008 Offering may have various remedies available to them, including the right to rescind their investment. We may not have the funds available to satisfy a demand for the rescission from these investors.

We raised $185,000 in the Fall 2008 Offering from six investors prior to the amendment of the offering terms (the Original Investors). The Original Investors may have the right to rescind their investment in the Fall 2008 Offering. In addition, California law provides that these investors are also entitled to interest at the rate of 7% per annum. Were any of the six Original Investors to demand rescission, because of our continuing limited capital resources, we may not have the funds available to satisfy such demand. Demands for rescission, even if we were able to satisfy such demands, would have a material adverse affect on our capital resources, cash flow and overall financial condition.

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In order to discharge our obligations under applicable securities laws, we intend to conduct a rescission offering to the Original Investors in the Fall 2008 Offering. We do not intend to conduct the rescission offer until after the Fall 2008 Offering terminates. We may have to use some of our remaining capital resources, including future proceeds from this Offering from other investors, to satisfy any demand by the Original Investors to rescind their investment.

We intend to conduct a rescission offering in compliance with applicable state securities laws (the Rescission Offering) to the Original Investors in the Fall 2008 Offering after the Fall 2008 Offering terminates. After explaining to the Original Investors how we may have overlooked disclosing certain information in a timely manner, and then providing such information to the Original Investors, we will give the Original Investors the choice of either confirming their investment in the Fall 2008 Offering, on the amended terms that are applicable to all investors in the Fall 2008 Offering, or demanding a rescission of their investment with interest at the applicable legal rate. If an Original Investor confirms his investment in the Fall 2008 Offering on the amended terms as described herein, then he will be deemed to waive any objection to any violation we may have previously committed and he will not subsequently be able to seek rescission of his investment in the Fall 2008 Offering. If an Original Investor elects to rescind his investment in the Fall 2008 Offering, he will be entitled to the return of his full investment plus interest at the rate of 7% per annum and, thereafter, he will have no claim against us for any violation we may have committed in the Fall 2008 Offering. However, we may have to use some of our remaining capital resources, including future proceeds from the Fall 2008 Offering from other investors, to satisfy any demand by any of the Original Investors to rescind their investment. Payments we would be obligated to make in connection with demands for rescission would have a material adverse affect on our capital resources, financial condition and future prospects and, additionally, may require us to use some of the future proceeds of the Fall 2008 Offering to satisfy such obligations, meaning such proceeds would not be available to be used for the Company s business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company s offices are located at 2603 Main Street, Suite 1155, Irvine, California 92614.

<u>Sublease of Principal Executive Offices</u>

On November 13, 2008, we entered into an agreement (the Sublease) with a law firm (the Sublessor) that has provided legal services to us from time to time, to sublease space as our principal executive offices located at Suite 1155, 2603 Main Street, Irvine, California (the Premises). Previously, non-exclusive use of the Premises as our principal executive offices had been provided to us free-of-charge by the Sublessor. The Premises consists of a self-contained office suite of approximately 2,842 square feet and is fully built out. We believe that the space provided by the Premises is adequate for our needs for the foreseeable future.

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We have agreed to pay the Sublessor rent in the amount of $7,996 per month through December 31, 2008 and $7,114 per month from January 1, 2009 through December 31, 2009 (pro-rated for partial months), which consists of base rent, certain pass-through charges from the Sublessor s landlord (the Landlord) and reserved parking spaces. We are not obligated to pay a security deposit to the Sublessor or the Landlord. We may pay each month s rent to the Sublessor, at our option, in (i) cash or (ii) shares of our common stock, valued at the average closing bid price for the ten trading days preceding and including the last day of the preceding month.

We are subleasing the Premises on a month-to-month basis. The Sublease terminates on December 31, 2009, which is the end of the term under the Sublessor s lease (the Master Lease) with its Landlord. However, either the Sublessor or we can terminate the Sublease on 30 days notice to the other party, in which case we would have no further obligation to the Sublessor.

We have agreed to comply with all terms and conditions of the Master Lease as it relates to the Premises, including without limitation provisions relating to the maintenance of insurance, indemnification of the Landlord, subordination in the event of certain claims and other matters typically found in commercial leases. The Landlord has consented to the sublease.

ITEM 3. LEGAL PROCEEDINGS

Attorney Fee Settlement

In February 2008, we agreed to pay $25,000, issue 15,000 shares of our common stock, and issue warrants to purchase an aggregate 15,000 shares of our common stock at $1.50 per share, which warrants would expire three years from the date of issuance, in settlement of an account owed to a service provider. Since the date of the settlement, certain facts have come to light, and therefore, as of the date of this Report, we have not issued the common stock or the warrants, but have recorded a $42,050 expense in connection therewith.

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. As of December 31, 2008, there were no litigation proceedings.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES

Market Information

From October 31, 1998 until June 10, 2003, our common stock was listed on the Nasdaq Small Cap Market. From June 11, 2003 until January 22, 2008, our common stock was quoted on the Pink Sheets under the symbols NMED (from June 11, 2003 through March 21, 2007) and BLGO (from March 22, 2007 until January 22, 2008). Since January 23, 2008, our common stock has been quoted on the OTC Bulletin Board under the trading symbol BLGO . The table below represents the quarterly high and low bid prices for our common stock for the last two fiscal years as reported by Bloomberg L.P.

	2007		2008	
	High	Low	High	Low
First Quarter	$ 1.01	$ 0.31	$ 2.00	$ 0.75
Second Quarter	$ 0.70	$ 0.32	$ 1.70	$ 1.01
Third Quarter	$ 0.99	$ 0.36	$ 1.30	$ 0.61
Fourth Quarter	$ 0.96	$ 0.36	$ 0.89	$ 0.35

The closing bid price for our common stock on March 27, 2009, was $0.48 per share. As of such date, there were approximately 429 registered owners and of our common stock. We believe that the number of beneficial owners is substantially higher than this amount.

Dividends

We have never declared or paid a cash dividend to stockholders. We intend to retain any earnings which may be generated in the future to finance operations.

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	785,000	$ 1.02	5,215,000(1)
Equity compensation plans not approved by security holders	0	0	0
Total	785,000	$ 1.02	5,215,000

(1) Consists of 6,000,000 shares issuable

under our 2007 Equity Incentive Plan (the 2007 Plan). The 2007 Plan was adopted by our Board of Directors on August 7, 2007 and approved by the stockholders of the Company at the 2007 Annual Meeting of Stockholders on September 6, 2007. Excludes 572,800 shares that remained issuable under the Company s 2004 Equity Plan (the 2004 Plan). Upon the adoption of the 2007 Plan, the 2004 Plan was frozen and no further grants will be made under the 2004 Plan.

Sales of Unregistered Securities

2007 Offering

Pursuant to a private offering that commenced May 2007 (the 2007 Offering) and terminated December 2007, we sold $1,000,000 of our convertible notes (the 2007 Notes), which are due and payable on June 30, 2009 (the Maturity Date), to 21 investors, convertible into an aggregate 1,428,582 shares of our common stock. The 2007 Notes bear interest at a rate of 10% compounding annually, such interest to be paid, at our option, in cash or stock at a conversion rate of $0.70 per share. The 2007 Notes are convertible into shares of the Company s common stock at an initial conversion price of $0.70 per share, and can be converted voluntarily by the noteholders at any time. We can elect to convert the 2007 Notes (i) on or after September 30, 2007, if we have received one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least $3 million gross proceeds of equity or debt; or (ii) on the Maturity Date. Accordingly, on the Maturity Date, we may repay the 2007 Notes in cash or choose to convert the notes, at our sole option, into shares of our common stock.

Each purchaser of the 2007 Notes received, for no additional consideration, a stock purchase warrant (the 2007 Warrants) entitling the holder to purchase a number of shares of our common stock equal to the number of shares of our common stock into which the principal amount of the investor s 2007 Note is convertible. The 2007 Warrants are exercisable at $1.30 per share and will expire on June 30, 2010.

Spring 2008 Offering

Pursuant to a private offering that commenced March 2008 (the Spring 2008 Offering) and terminated August 2008, we sold $913,625 of our 10% convertible notes (the Spring 2008 Notes), which are due and payable on March 31, 2010, to 30 investors, convertible into an aggregate 676,775 shares of our common stock. The Spring 2008 Notes are convertible into shares of our common stock at an initial conversion price of $1.35 per share. The Spring 2008 Notes can be converted voluntarily by the noteholders at any time prior to the maturity date. We can unilaterally convert the Spring 2008 Notes (i) on or after September 30, 2008, if we have received one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least $3 million gross proceeds of equity or debt; or (ii) on the maturity date. Accordingly, the Spring 2008 Notes may be repaid in cash or may be converted, at our sole option, into shares of our common stock, on or before the maturity date of the Spring 2008 Notes.

Each purchaser of the Spring 2008 Notes received, for no additional consideration, two stock purchase warrants (a one-year warrant and a three-year warrant), each of which entitles the holder to purchase the number of shares of our common stock into which the holder s Spring 2008 Note is convertible. The Spring 2008 One-Year Warrants expire on March 31, 2009 and are exercisable at $0.50 (originally $1.50) per share. The Spring 2008 Three-Year Warrants are exercisable at an initial exercise price of $2.00 per share and expire on March 31, 2011. On September 19, 2008, our Board of Directors reduced the exercise price of the Spring 2008 One-Year Warrants from $1.50 per share (the original exercise price pursuant to the terms of the Spring 2008 Offering) to $1.00 per share. On January 16, 2009, our Board of Directors reduced the exercise price of the Spring 2008 One-Year Warrants from $1.00 per share to $0.50 per share.

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Fall 2008 Offering

In October 2008 we commenced a private offering (the Fall 2008 Offering) of up to $1,000,000 of our 10% convertible promissory notes due October 15, 2011 (the Fall 2008 Notes), subject to an over-allotment option of 15%, or an aggregate $1,150,000 principal amount of Fall 2008 Notes. We can unilaterally convert the Fall 2008 Notes (i) on or after April 30, 2009, if we have received one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least $3 million gross proceeds of equity or debt; or (ii) on the maturity date. Accordingly, the Fall 2008 Notes may be repaid in cash or may be converted, at the noteholders option or our option, into shares of our common stock, on or before the October 15, 2011 maturity date.

As originally offered, the Fall 2008 Notes were convertible into shares of our common stock at an initial conversion price of $1.00 per share. Also as originally offered, purchasers of the Fall 2008 Notes were to receive, for no additional consideration, two stock purchase warrants, each of which entitled the holder to purchase the number of shares of the Company s common stock into which the principal amount of the Note was convertible. The first warrant (the Fall 2008 One-Year Warrant) was exercisable at an initial price of $1.00 per share and was due to expire on October 15, 2009. The second warrant (the Fall 2008 Three-Year Warrant and together with the One-Year Warrant, the Fall 2008 Warrants) was exercisable at an initial price of $2.00 per share and was due to expire on October 15, 2011.

On January 16, 2009, our Board of Directors amended the terms of the Offering as follows: (i) the initial conversion price of the Fall 2008 Notes was reduced from $1.00 per share to $0.50 per share; (ii) the exercise price of the Fall 2008 One-Year Warrant was reduced from $1.00 per share to $0.75 per share; (iii) the exercise price of the Fall 2008 Three-Year Warrant was reduced from $2.00 per share to $1.00 per share; and the number of shares of our common stock for which the Fall 2008 One-Year Warrants and the Fall 2008 Three-Year Warrants may be exercised is being increased from one share per dollar invested to two shares for each dollar invested.

The Fall 2008 Offering terminates on March 31, 2009. From the inception of the offering, through March 27, 2009, we sold $503,000 aggregate principal amount of Fall 2008 Notes, and issued Fall 2008 One-Year Warrants to purchase an aggregate 1,006,000 shares of our common stock at an exercise price of $0.75, and Fall 2008 Three-Year Warrants to purchase an aggregate 1,006,000 shares of our common stock at an exercise price of $1.00 per share, to 14 investors.

Stock Issuances in 2008

On February 12, 2008, we issued an aggregate 487,000 shares of common stock in connection with the exercise of warrants, at $1.25 per share, to 17 investors.

On May 15, 2008, a holder of two convertible promissory notes in the aggregate principal amount of $75,000 voluntarily converted the notes, together with accrued and unpaid interest in the amount of $10,687, into 124,636 shares of our common stock, at a rate of $0.6875 per share in accordance with the terms of such notes. We did not receive any proceeds in connection with this conversion.

On September 13, 2008, we issued an aggregate 1,581,580 shares of our common stock to holders of our promissory notes due September 13, 2008 (the Fall 2006 Notes), which the noteholders purchased in a private offering we conducted commencing September 13, 2006 (the Fall 2006 Offering). Pursuant to the terms of the Fall 2006 Offering, we had the right to require the conversion of the principal outstanding amount of the Fall 2006 Notes, together with accrued and unpaid interest thereon, upon their maturity. We elected to convert the $925,000 principal amount of the Fall 2006 Notes then outstanding, together with accrued and unpaid interest thereon in the amount of $162,189, at a conversion price of $0.6875 per share, into 1,581,580 shares of our common stock.

On November 6, 2008, we issued 50,000 shares of our common stock to a consultant in exchange for consulting and advisory services to us in the areas of shareholder communications, public relations and relations with the investment community generally.

On December 29, 2008, we issued 16,950 shares of our common stock to a director in exchange for his services as a director. We also issued, on December 29, 2008, 20,491 shares of our common stock in payment of rent pursuant to our Sublease agreement.

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.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 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, 2008 unless expressly stated otherwise, and we undertake no duty to update this information.

Overview

Although we did not generate any revenues and incurred continuing operating losses of $7,142,750 in 2008, we did continue to improve our core technology, CupriDyne, through evaluation and other testing. Further, we acquired the rights to market the Isan system from Ioteq. Lastly, we engaged in the development of three products incorporating our CupriDyne technology under the brand name Odor-No-More .

We continue to be limited in terms of our capital resources. In 2008, we raised net proceeds of $973,625 pursuant to private offerings, and $608,750 from the exercise of our warrants, and we need to raise significant additional capital in order to sustain our operations in 2009.

Results of Operations Comparison of the Years Ended December 31, 2008 and 2007

Revenue

We generated no revenues from operations during the year ended December 31, 2008, compared with $80,000 in revenues from operations during the year ended December 31, 2007. We anticipate that until full licensure of our technology or the commercialization of products incorporating our technology, our revenues will be uneven during the product testing, evaluation and development period. Until we are successful in negotiating and securing advance payments for licensing rights from prospective licensing candidates, we do not anticipate generating significant revenue.

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Selling, General and Administrative Expense

Selling, General and Administrative expenses were $4,829,061 for the year ended December 31, 2008, compared to $2,994,516 for the year ended December 31, 2007, an increase of $1,834,545. The largest components of these expenses were:

a. Salaries and Payroll-related Expenses: These expenses were $1,784,988 for the year ended December 31, 2008, compared to $1,016,511 for the year ended December 31, 2007, an increase of $768,477. The increases in the year ended December 31, 2008 are primarily attributable to $615,703 non-cash stock option compensation expense which vested in 2008. Most of the remainder of the increase is attributable to salary compensation for (i) Kenneth R. Code, who became our Chief Technology Officer and a full-time employee in April 2007; and (ii) Charles K. Dargan II, who became our Chief Financial Officer in February 2008.

b. Consulting Expenses: These expenses were $1,837,956 for the year ended December 31, 2008, compared to $596,708 for the year ended December 31, 2007, an increase of $1,241,248. The increases in the year ended December 31, 2008 are primarily attributable to non-cash stock option compensation expense related to the long-term consulting agreements with Robert Szolomayer, our Director of Corporate Development; and Jeffrey Wallace, our Director of Sales and Marketing, both of which were effective January 2008, and expenses related to the issuance of warrants to consultants and other professional advisors, partially offset by the change in status of Mr. Code from consultant to full-time employee in April 2007 and a reduction in consultants utilized in 2008 compared with 2007.

c. Professional Fees: These expenses were $522,334 for the year ended December 31, 2008, compared to $756,417 for the year ended December 31, 2007, a decrease of $234,083. The decrease in the year ended December 31, 2008 is primarily attributable to legal fees that we did not incur in 2008, but were incurred in 2007, arising from the acquisition of the BioLargo technology and related assets in April 2007, and legal and other professional fees associated with capital raising efforts in London.

d. Other Expense: These expenses were $90,000 for the year ended December 31, 2008, compared to $244,797 for the year ended December 31, 2007. These expenses in 2008 were the result of payments made pursuant to the Marketing Agreement with Ioteq. These expenses in 2007 were the result of converting certain accounts payable and accrued expenses at previously agreed upon prices that were less than the market price of our common stock on the dates of conversion.

Interest expense

Interest expense totaled $1,141,153 for the year ended December 31, 2008, compared to $1,564,312 for the year ended December 31, 2007, a decrease of $423,159. The decrease in the year ended December 31, 2008 is primarily attributable to the additional interest expense required to be recorded in 2007 in connection with the March 2007 conversions of certain promissory notes to common stock, as the conversion price was below the stock price.

Research and Development

Research and development expenses were $113,748 for the year ended December 31, 2008, compared to $131,349 for the year ended December 31, 2007, a decrease of $17,601. The decrease in 2008 is primarily attributable to a decrease in legal expenses related to the patent applications filed in 2007 after the acquisition of the BioLargo technology and related assets.

Net Loss

Net loss for the year ended December 31, 2008 was $7,142,750, or a loss of $0.17, compared to a net loss for the year ended December 31, 2007 of $5,259,390, or a loss of $0.18 per share. The increase in net loss for the year ended December 31, 2008 is primarily attributable to increases in selling, general and administrative expenses, research and development expense and interest expense. The decrease in net loss per share for the year ending December 31, 2008 is primarily attributable to the increase in the number of weighted average shares outstanding as of such date, despite an increase in total costs and expenses for such period.

Liquidity and Capital Resources

We have been, and anticipate that we will continue to be, limited in terms of our capital resources. We generated no revenues in the year ended December 31, 2008. Until we are successful in negotiating and securing advance payments for licensing rights from prospective licensing candidates, we expect to continue to have operating losses. Cash and cash equivalents totaled $90,834 at December 31, 2008. We had negative working capital of $1,987,524 for the year ended December 31, 2008, and negative cash flow from operating activities of $1,899,034 compared to a negative cash flow from operating activities of $1,287,525 for the year ended December 31, 2007. We used 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 significant additional capital to sustain operations and further implement our business plan and we may be compelled to reduce or curtail certain activities to preserve cash.

The financial statements accompanying this 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 $7,142,750 for the year ended December 31, 2008, and an accumulated stockholders deficit of $42,156,032 as of December 31, 2008. 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 significant new sources of capital, attain a reasonable threshold of operating efficiencies and achieve profitable operations by licensing or otherwise commercializing products incorporating our BioLargo technology. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

As of December 31, 2008 we had $1,973,625 aggregate principal amount, together with $179,373 accrued and unpaid interest, outstanding on various promissory notes. We may pay all of these amounts in cash or in stock, at our option, at maturity. In addition, as of December 31, 2008, we had $657,801 in accrued and unpaid payables and $380,658 in accrued and unpaid interest to New Millennium Capital Partners, LLC, an entity controlled by Dennis Calvert, our President and Chief Executive Officer.

To provide working capital, in March 2008 we commenced a private offering (the Spring 2008 Offering), which terminated on August 29, 2008, in which we (i) sold $913,625 principal amount of Spring 2008 Notes, (ii) issued warrants which expire March 31, 2009 to purchase up to 676,775 shares of our common stock at $0.50 (originally $1.50) per share and (iii) issued warrants which expire March 31, 2011 to purchase up to an additional 676,775 shares of our common stock at $2.00 per share. The proceeds of the Spring 2008 Offering have been spent. See Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds and Notes 4, 5 and 13 to Notes to Financial Statements .

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Because of our continuing liquidity difficulties, in October 2008 we commenced another private offering (the Fall 2008 Offering), which terminates March 31, 2009. From the inception of the offering, through March 27, 2009, we (i) sold $503,000 principal amount of Fall 2008 Notes convertible at $0.50 per share, (ii) issued Fall 2008 One-Year Warrants to purchase up to 1,006,000 shares of our common stock at $0.75 per share and (iii) issued Fall 2008 Three-Year Warrants to purchase up to an additional 1,006,000 shares of our common stock at $1.00 per share. See Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds and Notes 4, 5 and 13 to Notes to Financial Statements .

We have incurred more expenses in operations in 2008 compared to 2007. We estimate that our current cash, including any remaining net proceeds we received in the Fall 2008 Offering, will not provide sufficient capital to meet operating expenses and other financial obligations.

We will be required to raise substantial additional capital to sustain our expanded operations, 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, and possible strategic acquisitions or alliances, as well as to meet our liabilities as they become due for the next 12 months. We may also be compelled to reduce or curtail certain activities to preserve cash. See Part II, Item 1A, Risk Factors .

In addition to the private securities offerings discussed above, we are continuing to explore 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. To fully implement our business plan, we believe that we must raise up to an additional $10 million in financing. There can be no assurance that we will be able to raise any additional capital. No commitments are in place as of the date of the filing of this report for any such additional financings. Moreover, in light of the current unfavorable economic conditions, we do not believe that any such financing is likely to be in place in the immediate future.

It is also unlikely that we will be able to qualify for bank or other financial institutional debt financing 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 or more.

If we are unable to raise sufficient capital, we may be required to curtail some of our operations, including efforts to develop, test, market, evaluate and license our BioLargo technology. If we were forced to curtail aspects of our operations, there could be a material adverse impact on our financial condition and results of operations.

Under the terms of the Sublease, we may issue, at our option, securities in consideration for services provided to us. 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 shareholders 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. See Part II, Item 1A, Risk Factors .

Obligation to New Millennium, related party

In March 2003, New Millennium purchased from a third party (i) a $1,120,000 promissory note assumed by the Company pursuant to a licensing transaction in October 2002. On April 28, 2006, the Company and New Millennium agreed to amend the terms of the $1,120,000 promissory note to (i) extend the due date to January 15, 2008; (ii) waive any payments of interest until it becomes due; (iii) reduce the principal amount from $1,120,000 to $900,000, equal to a 19.6% reduction; and (iv) correspondingly reduce the accrued but unpaid interest due under the terms of the note from $317,956 to $255,636, also equal to a 19.6% reduction.

On April 13, 2007, we entered into an agreement with New Millennium whereby the $900,000 principal amount of the New Millennium Note was converted into 1,636,364 shares of our common stock 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. The remaining accrued but unpaid interest in the amount of $380,658 was not converted and the parties agreed that no further interest would accrue and that the interest would be paid on or before January 15, 2008. On November 12, 2008, we agreed to further extend the date on which interest would be paid to April 30, 2009.

Critical Accounting Policies

Our discussion and analysis of our results of operations and liquidity and capital resources are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, valuation of intangible assets and investments, and share-based payments. We base our estimates on anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results that differ from our estimates could have a significant adverse effect on our operating results and financial position. We believe that the following significant accounting policies and assumptions may involve a higher degree of judgment and complexity than others.

The methods, estimates and judgments the Company uses in applying these most critical accounting policies have a significant impact on the results of the Company reports in its financial statements.

We anticipate that any generated revenue will principally be derived from royalties and license fees from our intellectual property. Licensees typically pay a license fee in one or more installments and ongoing royalties based on their sales of products incorporating or using our licensed intellectual property. License fees are recognized over the estimated period of future benefit to the average licensee.

The Company has established a policy relative to the methodology to determine the value assigned to each intangible acquired with or licensed by the Company and/or services or products received for non-cash consideration of the Company s common stock. The value is based on the market price of the Company s common stock issued as consideration, at the date of the agreement of each transaction or when the service is rendered or product is received, as adjusted for applicable discounts.

It the Company s policy to expense share based payments as of the date of grant in accordance with Financial Accounting Statements Board Statement number 123R Share-Based Payment. Application of this pronouncement requires significant judgment regarding the assumptions used in the selected option pricing model, including stock price volatility and employee exercise behavior. Most of these inputs are either highly dependent on the current economic environment at the date of grant or forward-looking expectations projected over the expected term of the award. As a result, the actual impact of adoption on future earnings could differ significantly from our current estimate.

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Recent Accounting Pronouncements

In May 2008, the FASB issued the final version of Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments that may be Settled in Cash Upon Conversions (Including Partial Cash Settlement) (APB 14-1) that requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer s nonconvertible debt borrowing rate. APB 14-1 is effective for fiscal years beginning after December 15, 2008, which for the Company will be fiscal 2009, and interim periods within those fiscal years and must be applied retrospectively to all periods presented, which for the Company would include the comparative quarterly presentations for fiscal 2009. Accordingly, commencing in fiscal 2010, the Company will present prior period comparative results reflecting the impact of APB 14-1 if determined to apply to the Company at that time. The Company is currently evaluating the impact APB 14-1 will have on its consolidated financial statements, if any.

In April 2008, the FASB issued Staff Position No. FAS 142-3, Determination of the Useful Life of Intangible Assets (FAS 142-3) that amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. The intent of FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 and other U.S. generally accepted accounting principles. FAS 142-3 is effective for fiscal years and interim periods beginning after December 15, 2008. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements, if any.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, or SFAS No. 160. SFAS No. 160 amends Accounting Research Bulletin 51, Consolidated Financial Statements, or ARB 51, and requires all entities to report noncontrolling (minority) interests in subsidiaries within equity in the consolidated financial statements, but separate from the parent shareholders equity. SFAS No. 160 also requires any acquisitions or dispositions of noncontrolling interests that do not result in a change of control to be accounted for as equity transactions. Further, SFAS No. 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. We do not believe the adoption of SFAS No. 160 will have a material affect on our financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R), which revises current purchase accounting guidance in SFAS No. 141, *Business Combinations*. SFAS No. 141R requires most assets acquired and liabilities assumed in a business combination to be measured at their fair values as of the date of acquisition. SFAS No. 141R also modifies the initial measurement and subsequent remeasurement of contingent consideration and acquired contingencies, and requires that acquisition related costs be recognized as expense as incurred rather than capitalized as part of the cost of the acquisition. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008 (the Company s fiscal 2009) and is to be applied prospectively to business combinations occurring after adoption. The impact of SFAS No. 141R on the Company s consolidated financial statements will depend on the nature and extent of the Company s future acquisition activities.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Liabilities . This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. This Statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. We do not believe that the adoption of SFAS 159 will have a material affect on our financial statements.

Other recent accounting pronouncements issued by FASB (including its Emerging Issued Task Force), the American Institute of Certified Public Accountants and the SEC did not or are not believed by management to have a material impact on the Company s present or future consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not applicable

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements as of and for the years ended December 31, 2008 and 2007 are presented in a separate section of this report following Item 14 and begin with the index on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation, under the supervision and with the participation of management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Annual Report.

Our procedures have been designed to ensure that the information relating to our company, including our consolidated subsidiaries, required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow for timely decisions regarding required disclosure.

Based on this evaluation, our chief executive officer and chief financial officer concluded that as of the evaluation date our disclosure controls and procedures need improvement. Additionally, due to limited personnel and the resulting competing demands on our senior officers, at times there have been delays in disseminating information internally to those parties responsible for processing such information for disclosure. We have implemented certain further steps that we believe are warranted and believe, subject to our continuing evaluation and review of these further steps, that yet additional steps may also be warranted. In February 2008, we hired a Chief Financial Officer who is a Certified Public Accountant. We have also adopted disclosure controls and procedures guidelines. Additional steps that we believe that we must undertake are to retain a consulting firm to, among other things, design and implement adequate systems of accounting and financial statement disclosure controls during the current fiscal year to comply with the requirements of the SEC. We believe that the ultimate success of our plan to improve further our internal controls over financial reporting and disclosure controls and procedures will require a combination of additional financial resources, outside consulting services, legal advice, additional personnel, further reallocation of responsibility among various persons, improved lines of communication internally and substantial additional training of those of our officers, personnel and others, including certain of our directors such as our committee chairs, who are charged with implementing and/or carrying out our plan.

It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Management s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Under the supervision and with the participation of management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal controls over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon this evaluation, management has concluded that our internal control over financial reporting does not meet the requirements of COSO as of December 31, 2008 to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. In 2007, we identified two specific instances where our procedures were not effective: (i) reporting of stock option grants and warrant issuances and (ii) appropriate classification of our IOWC asset acquisition. We corrected these issues by restating the appropriate financial documents. Furthermore, we believe that our financial statements are materially correct.

These matters persist, in part, as a result of commencing business operations during 2007 at a time when we had limited personnel and financial resources. We have begun to implement a plan to address these issues, including the hiring in February 2008 of a Chief Financial Officer who is a Certified Public Accountant and the reallocation of responsibilities among officers and consultants. Additional steps that the Company believes it must undertake are to retain a consulting firm to, among other things, design and implement adequate systems of accounting and financial statement disclosure controls during the current fiscal year to comply with the requirements of the SEC. We believe that the ultimate success of our plan to improve our internal controls over financial reporting and disclosure controls and procedures will require a combination of additional financial resources, outside consulting services, legal advice, additional personnel, further reallocation of responsibility among various persons, and substantial additional training of those of our officers, personnel and others, including certain of our directors such as our committee chairs, who are charged with implementing and/or carrying out our plan.

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This Annual Report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the Company s registered public accounting firm pursuant to temporary rules of the SEC that permit the company to provide only management s report in this Annual Report.

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls or our internal control over financial reporting, or any system we design or implement in the future, will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Changes in Internal Control

There have not been any changes in our internal control over financial reporting during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

Certain information required by Part III is incorporated by reference from our Information Statement to be filed with the SEC in connection with the actions of our majority shareholder in lieu of holding a 2008 Annual Meeting of Stockholders (the Information Statement).

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required by this section is incorporated by reference from the section entitled Proposal 1 Election of Directors in the Information Statement. Item 405 of Regulation S-B calls for disclosure of any known late filing or failure by an insider to file a report required by Section 16 of the Exchange Act. This disclosure is incorporated by reference to the section entitled Section 16(a) Beneficial Ownership Reporting Compliance in the Information Statement. The information required by this Item with respect to our executive officers is contained in Item 1 of Part I of this Annual Report under the heading Business Executive Officers .

ITEM 11. EXECUTIVE COMPENSATION

The information required by this section is incorporated by reference from the information in the section entitled Executive Compensation in the Information Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this section is incorporated by reference from the information in the section entitled Security Ownership of Certain Beneficial Owners and Management in the Information Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this section is incorporated by reference from the information in the section entitled Certain Relationships and Related Transactions in the Information Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this section is incorporated by reference from the information in the section entitled Ratification of Appointment of Independent Auditor in the Information Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report:

Financial Statements:

(i) The consolidated financial statements of BioLargo, Inc. under Item 8 of this Annual Report are listed on the Index to Consolidated Financial Statements on page F-1 of this report.

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(b) Exhibits: The exhibits listed below are required by Item 601 of Regulation S-B.

Exhibit No.	Description of Exhibit
3.1	Amended and Restated Certificate of Incorporation filed March 16, 2007(6)
3.2	Certificate of Designations creating Series A Preferred Stock (3)
3.3	Bylaws, as amended and restated (1)
4.1	Amended and Restated Warrant No. AG-1 to purchase shares of common stock held by Augustine II LLC (3)
4.2	Secured Promissory Note in the face amount of $1,120,000 issued to Summitt Ventures, Inc., assigned to New Millennium Capital Partners, LLC (2)
4.3	Warrant Number AG-II to Purchase Common Stock issued July 29, 2005 issued to Augustine II, LLC (4)
4.4	Form of Promissory Note issued in the Fall 2006 Offering (5)
4.5	Form of Warrant issued in the Fall 2006 Offering(6)
4.6	Form of Promissory Note issued in the 2007 Offering (10)
4.7	Form of Warrant issued in the 2007 Offering (10)
4.8	Conversion Agreement dated April 13, 2007 between the Company and New Millennium Capital Partners LLC(6)
4.9	Form of Convertible Promissory Note issued in the Spring 2008 Offering (12)
4.10	Form of One-Year Warrant issued in the Spring 2008 Offering (12)
4.11	Form of Three-Year Warrant issued in the Spring 2008 Offering (12)
4.12	Form of Warrant to Purchase Common Stock issued to SC Capital Partners, LLC (12)
4.13*	Form of Convertible Promissory Note issued in the Fall 2008 Offering
4.14*	Form of One-Year Warrant issued in the Fall 2008 Offering
4.15*	Form of Three-Year Warrant issued in the Fall 2008 Offering
4.16*	Amended Form of Convertible Promissory Note issued in the Spring 2008 Offering
4.17*	Amended Form of One-Year Warrant issued in the Spring 2008 Offering
4.18*	Amended Form of Three-Year Warrant issued in the Spring 2008 Offering

10.1	Asset Purchase Agreement dated as of April 30, 2007 between the Company, BioLargo Life Technologies, Inc., IOWC Technologies, Inc., and Kenneth R. Code(6)
10.2	Employment Agreement dated as of April 30, 2007 between the Company and Dennis Calvert(6)
10.3	Employment Agreement dated as of April 30, 2007 between the Company and Kenneth R. Code(6)

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Exhibit No.	Description of Exhibit
10.4	Assignment of USPTO Patent Application 11/516,958 to BioLargo Life Technologies, Inc. (6)
10.5	Assignment of USPTO Patent Application 11/516,960 to BioLargo Life Technologies, Inc. (6)
10.6	Assignment of USPTO Patent Application 60/850,976 to BioLargo Life Technologies, Inc. (6)
10.7	Assignment of USPTO Patent Application 60/873,763 to BioLargo Life Technologies, Inc. (6)
10.8	Assignment of USPTO Patent Application 60/881,061 to BioLargo Life Technologies, Inc. (6)
10.9	Assignment of USPTO Patent Application 60/900,374 to BioLargo Life Technologies, Inc. (6)
10.10	Promissory note related to professional fees(7)
10.11	BioLargo, Inc. 2007 Equity Incentive Plan(7)
10.12	Employment Agreement dated as of January 1, 2008 between BioLargo, Inc. and Joseph L. Provenzano(8)
10.13	Consulting Agreement dated as of January 1, 2008 between BioLargo, Inc. and Jeffrey C. Wallace(8)
10.14	Consulting Agreement dated as of January 1, 2008 between BioLargo, Inc. and Robert C. Szolomayer(8)
10.15	Engagement Agreement dated February 1, 2008 between BioLargo, Inc. and Charles K. Dargan, II (9)
10.16	Consulting Agreement dated as of November 6, 2008 between BioLargo, Inc. and Howard Isaacs (11)
10.17	Form of Warrant issued to Howard Isaacs (111)
10.18	Agreement dated as of August 19, 2008 by and among BioLargo, Inc., BioLargo Life Technologies, Inc., and Ioteq IP, Ltd. and Ioteq, Inc. (12)
10.19	Sublease Agreement dated as of November 13, 2008 (12)
10.20	Engagement Extension Agreement dated as of February 1, 2009 between BioLargo, Inc. and Charles K. Dargan, II. (13)

21.1*	List of Subsidiaries of the Registrant
24.1*	Power of Attorney (included on Signature Page)
31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13(a)-14 and 15(d)-14 under the Securities Exchange Act of 1934
31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13(a)-14 and 15(d)-14 under the Securities Exchange Act of 1934
32.1*	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

* Filed herewith.

Management contract or compensatory plan, contract or arrangement

(1) Incorporated herein by reference from the 10-KSB filed by the Company for the year ended December 31, 2002.

(2) Incorporated herein by reference from the Form 8-K filed by the Company on May 1, 2003.

(3) Incorporated herein by reference from the Form 10-KSB filed by the Company for the year ended December 31, 2003.

(4) Incorporated herein by reference from the Form 10-QSB filed by the Company for the three-month period ended March 31, 2005.

(5) Incorporated herein by reference from the Form 8-K filed by the Company on December 4, 2006.

(6) Incorporated herein by reference from the Form 10-KSB filed by the Company for the year ended December 31, 2007.

(7) Incorporated herein by reference from the Form 10-QSB for the three-month period ended September 30, 2007.

(8) Incorporated herein by reference from the Form 8-K filed by the Company on January 16, 2008.

(9) Incorporated herein by reference from the Form 8-K filed by the Company on February 4, 2008.

(10) Incorporated herein by reference from the Form 10-KSB filed by the Company for the year ended December 31,

2007

(11) Incorporated herein by reference from the Form 8-K filed by the Company on November 12, 2008.

(12) Incorporated herein by reference from the Form 10-QSB for the three-month period ended September 30, 2007.

(13) Incorporated herein by reference from the Form 8-K filed by the Company on February 24, 2009.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	BIOLARGO, INC.
Date: March 31, 2009	By: /s/ DENNIS P. CALVERT **Dennis Calvert** **President and Chief Executive Officer**

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints, jointly and severally, Dennis P. Calvert and Joseph L. Provenzano, and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the date indicated:

Name	Title	Date
/s/ DENNIS P. CALVERT **Dennis Calvert**	Chairman of the Board, Chief Executive Officer and President	March 31, 2009
/s/ CHARLES K. DARGAN II **Charles K. Dargan II**	Chief Financial Officer (principal financial officer and principal accounting officer)	March 31, 2009
/s/ KENNETH R. CODE **Kenneth R. Code**	Chief Technology Officer and Director	March 31, 2009
/s/ JOSEPH L. PROVENZANO **Joseph Provenzano**	Executive Vice President, Corporate Secretary and Director	March 31, 2009
/s/ GARY A. COX **Gary Cox**	Director	March 31, 2009
/s/ DENNIS E. MARSHALL **Dennis E. Marshall**	Director	March 31, 2009

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
BioLargo, Inc.

I have audited the consolidated balance sheets of BioLargo, Inc. and Subsidiary the (Company) as of December 31, 2008 and 2007 and the related consolidated statements of operations, stockholders equity (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company s management. My responsibility is to express an opinion on these consolidated financial statements based on my audits.

I conducted my audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, I express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. I believe my audits provide a reasonable basis for my opinion.

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of BioLargo, Inc. and Subsidiary as of December 31, 2008 and 2007 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has limited liquid resources, recurring losses, negative cash flow from operations, and is seeking to raise capital which will allow it to fund corporate maintenance and to implement its business plan, which requires the Company to exploit its acquired technology. These matters raise substantial doubt about its ability to continue as a going concern. Management s plans in regard to these matters are also discussed in Note 1. The consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

/s/ JEFFREY S. GILBERT
Los Angeles, California
March 27, 2009

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PART I

Item 1. Financial Statements

BIOLARGO, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2007 AND 2008

	December 31, 2007	December 31, 2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 457,809	$ 90,384
Prepaid expenses	4,584	4,586
Total current assets	462,393	94,970
FIXED ASSETS		
Equipment, net		25,954
Total fixed assets		25,954
OTHER ASSETS		
Licensing rights, net	10,655,164	9,633,052
Assigned agreements, net	340,377	255,285
TOTAL ASSETS	$ 11,457,934	$ 10,009,261
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 781,221	$ 993,431
Accrued option compensation expense	635,845	657,801
Convertible notes payable, current portion	1,000,000	1,000,000
Discount on convertible notes, current portion net of amortization	(443,212)	(568,738)
Note payable	22,076	
Total Current Liabilities	1,995,930	2,082,494
LONG-TERM LIABILITIES		
Convertible notes payable, net of current portion	1,000,000	973,625
Discount on convertible notes, net of current portion and amortization	(573,963)	(400,950)
Total Long-term Liabilities	426,037	572,675

TOTAL LIABILITIES	2,421,967	2,655,169
COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS		
STOCKHOLDERS EQUITY		
Convertible Preferred Series A, $.00067 Par Value, 50,000,000 and 25,000,000 Shares Authorized, -0- Shares Issued and Outstanding, at December 31, 2008 and December 31, 2007.		
Common Stock, $.00067 Par Value, 200,000,000 Shares Authorized, 42,261,268 and 39,980,611 Shares Issued, at December 31, 2008 and December 31, 2007, respectively	26,779	28,319
Additional Paid-In Capital	44,022,471	49,534,305
Accumulated Deficit	(35,013,283)	(42,156,032)
Total Stockholders Equity	9,035,967	7,384,894
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 11,457,934	$ 10,009,261

See accompanying notes to consolidated financial statements

BIOLARGO, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007 AND 2008

	2007	2008
Revenue	$ 80,000	$
Total revenue	80,000	
Costs and expenses		
Selling, general and administrative	2,994,516	4,829,061
Research and development	131,349	113,748
Amortization	738,136	1,109,940
Total costs and expenses	3,864,001	6,052,749
Loss from operations	(3,864,001)	(6,052,749)
Other income and (expense)		
Interest expense	(1,564,312)	(1,149,986)
Other income	88,923	59,985
Net other income and (expense)	(1,475,389)	(1,090,001)
Net loss	$ (5,259,390)	$ (7,142,750)
Loss per common share basic and diluted		
Loss per share	$ (0.18)	$ (0.17)
Weighted average common share equivalents outstanding	28,791,898	41,622,951

See accompanying notes to consolidated financial statements

BIOLARGO, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2008

	Common Stock Number of Shares	Par Value $.00067	Additional Paid-In Capital	Retained Earnings (Deficit)	Total
BALANCE DECEMBER 31, 2006	3,135,822	$ 2,087	$ 24,422,819	$ (29,753,892)	$ (5,328,986)
Conversion of note obligations (including additional interest expense)	6,985,441	4,680	3,125,610		3,130,290
Conversion of consultant obligations (including additional expense)	2,316,884	1,556	1,307,035		1,308,591
Conversion of Board of Directors and officer payable obligations	1,735,535	1,166	684,993		686,159
Issuance of warrants as part of convertible note offering			992,221		992,221
Issuance of stock options to Board of Directors and consultants			156,268		156,268
Shares issued for the acquisition of assets from IOWC	22,139,012	14,833	11,718,844		11,733,677
Conversion of Augustine note payable	2,031,553	1,361	715,777		717,138
Conversion of New Millennium Note payable obligation (related party)	1,636,364	1,096	898,904		900,000
Net Loss for the year ended December 31, 2007				(5,259,390)	(5,259,390)
BALANCE DECEMBER 31, 2007	39,980,611	$ 26,779	$ 44,022,471	$ (35,013,282)	$ 9,035,968
Exercised warrants	487,000	334	608,416		608,750
Issuance of warrants as part of convertible note offering			788,971		788,971
Fair value of warrant repricing			76,300		76,300
Vested portion of stock options			1,705,276		1,705,276
Issuance of warrants to consultants			317,225		317,225
Issuance of stock options to Board of Directors and consultants			748,876		748,876
Issuance of stock for services	87,441	39	42,428		42,467
	1,706,216	1,167	1,171,842		1,173,009

Conversion of convertible note payable obligations					
Net loss for the year ended December 31, 2008				(7,142,750)	(7,142,750)
BALANCE DECEMBER 31, 2008	42,261,268	$ 28,319	$ 49,534,305	$ (42,156,032)	$ 7,354,092

See accompanying notes to consolidated financial statements

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BIOLARGO, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2007 AND 2008

	2007	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$ (5,259,390)	$ (7,142,750)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Non-cash interest expense related to conversion of noteholder obligations	1,216,904	75,362
Non-cash expense related to stock issued to consultants and professionals for settlement of obligations	606,655	42,452
Non-cash interest expense related to the fair value of warrants issued in conjunction with our convertible notes	514,946	877,097
Non-cash expense related to options issued to officers	643,843	1,251,548
Non-cash expense related to options issued to consultants	148,270	1,195,560
Non-cash expense related to warrants issued to consultants		317,225
Amortization and depreciation expense	738,136	1,109,940
Decrease in prepaid expense	11,916	
Increase in accounts payable and accrued expenses	91,195	374,532
Net Cash Used In Operating Activities	(1,287,525)	(1,899,034)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets		(28,690)
Net Cash Used In Investing Activities		(28,690)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercised warrants		608,750
Payments on note payable		(22,076)
Proceeds from convertible notes	1,516,000	973,625
Net Cash Provided By Financing Activities	1,516,000	1,560,299
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(228,475)	(367,425)
CASH AND CASH EQUIVALENTS BEGINNING	229,334	457,809
CASH AND CASH EQUIVALENTS ENDING	$ 457,809	$ 90,384

SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION
Cash Paid During the Period for:

Interest	$	$
Income taxes	$	$
Conversion of note payable, related party to shares of the Company s common stock	$ 900,000	$
Conversion of convertible notes to shares of the Company s common stock	$ 2,373,120	$ 1,173,009
Conversion of accrued expenses to shares of the Company s common stock: Board of Directors and officer obligations	$ 686,159	$
Consultant obligations	$ 1,262,841	$
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Issuance of warrants in conjunction with convertible note offerings	$ 992,221	$ 865,271
Repriced warrants in conjunction with convertible note offering	$	$ 76,300
Issuance of shares of the Company s common stock in conjunction with the acquisition of assets from IOWC	$ 11,733,676	$

See accompanying notes to consolidated financial statements

BIOLARGO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Business and Organization

Outlook

Prior to the acquisition of certain patented and patent-pending intellectual property and other assets (the BioLargo technology) from IOWC Technologies, Inc. (IOWC) on April 30, 2007, BioLargo, Inc. (the Company , or we) had no continuing business operations and operated as a shell company.

We will be required to raise substantial capital to sustain our expanded operations, 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, and possible strategic acquisitions or alliances, as well as to meet our liabilities as they become due for the next 12 months.

We will need additional outside capital until and unless that technology is able to generate positive working capital sufficient to fund our cash flow requirements from operations and we may be compelled to reduce or curtail certain activities to preserve cash.

These financial statements 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 $7,142,750 for the year ended December 31, 2008, negative working capital of $1,987,524 for the year ended December 31, 2008, and negative cash flow from operating activities of $1,899,034 for the year ended December 31, 2008, and an accumulated stockholders deficit of $42,156,032 as of December 31, 2008. Also, as of December 31, 2008, we had limited liquid and capital resources. 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 our ability to attract new sources of capital, exploit our technology so that it attains a reasonable threshold of operating efficiencies and achieves profitable operations. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

As of December 31, 2008, cash and cash equivalents totaled $90,384, We had no revenues in the year ended December 31, 2008, and financing activities funded operations.

During the year ended December 31, 2008, we sold an aggregate $973,625 principal amount of our convertible promissory notes. This amount was sold pursuant to our outstanding private securities offerings in 2008. (See Note 4.)

During the year ended December 31, 2008, we received $608,750 from the exercise of our warrants. (See Note 5.)

As of December 31, 2008, we had $1,973,625 aggregate principal amount, together with $179,373 accrued and unpaid interest, outstanding on promissory notes that mature at various times during 2009, 2010 and 2011. (See Notes 4 and 9.)

In the opinion of management, the accompanying balance sheets and related statements of operations, cash flows, and stockholders equity include all adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Actual results and outcomes may differ from management s estimates and assumptions. Estimates are used when accounting for stock-based transactions, account payables and accrued expenses and taxes, among others.

BIOLARGO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Organization

We were initially organized under the laws of the State of Florida in 1989 as Repossession Auction, Inc. In 1991, we merged into a Delaware corporation bearing the same name. In 1994, we changed our name to Latin American Casinos, Inc. to reflect our new focus on the gaming and casino business in South and Central America, and in 2001 we changed our name to NuWay Energy, Inc. to reflect our new emphasis on the oil and gas development industry. During October 2002, we changed our name to NuWay Medical, Inc. coincident with the divestiture of our 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.

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.

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.

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BIOLARGO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Second, in 2008, we engaged in the development of three products incorporating our BioLargo technology under the brand name Odor-No-More . At the end of 2008 we began 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 the test marketing program, and, if 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.

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.

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

BIOLARGO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

Acquisition of the BioLargo Technology

On April 30, 2007, we completed the acquisition of certain intellectual property and other assets from IOWC, pursuant to an Asset Purchase Agreement dated as of April 30, 2007 between the Company, IOWC and Mr. Code (the Asset Purchase Agreement). 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 (i) certain United States patents, (ii) 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, (iii) all license and distribution agreements to which either Mr. Code or IOWC was then a party, and (iv) other records, in exchange for 22,139,012 shares of the Company s common stock. Mr. Code and certain other co-inventors of intellectual property had previously assigned to us 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 pursuant to the international Patent Cooperation Treaty (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 constituted 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.

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

Change in Control; Election of Mr. Code as Director

The acquisition of the BioLargo technology resulted in a change of control of the Company. In connection with the completion of the acquisition of the BioLargo technology, we issued 22,139,012 shares of its common stock to IOWC (the IOWC Shares). IOWC is controlled by Mr. Code. The IOWC Shares, together with 620,637 shares of common stock, previously issued to Mr. Code under the Consulting Agreement, constituted approximately 57.8% of our issued and outstanding stock as of April 30, 2007.

Under Delaware law, Mr. Code 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. In connection with the completion of the acquisition of the BioLargo technology on April 30, 2007, Mr. Code was elected to our board of directors. Additionally, the Code Employment Agreement provides that during the term of the Code Employment Agreement we shall cause to have Mr. Code nominated for election as a director to serve on the Board of Directors Mr. Code also serves as our Chief Technology Officer, which is an executive officer position.

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BIOLARGO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies

a) Principles of Consolidation.

As of December 31, 2008, we had one subsidiary, BioLargo Life Technologies, Inc. (BLTI). In December 2007, we formally closed our other subsidiary, NuWay Sports, LLC. The consolidated balance sheets include the accounts of BioLargo, Inc., BLTI and NuWay Sports, LLC. All significant inter-company balances have been eliminated in consolidation.

b) Cash and Cash Equivalents.

We consider all highly liquid investments with original maturities of three months or less or money market funds from substantial financial institutions to be cash equivalents. We place substantially all of our cash and cash equivalents in interest bearing demand deposit accounts with one financial institution.

c) Equipment.

Equipment is carried at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which is three years. Equipment is stated on the balance sheet net of accumulated depreciation of $25,954 as of December 31, 2008. Depreciation expense for the years ended December 31, 2007 and 2008 was $0 and $2,736, respectively.

d) Long-Lived Assets.

We review intangible assets in accordance with FASB 142 Goodwill and Other Intangible Assets and estimate the useful lives, where appropriate. We also determine impairment whenever events or changes in circumstances indicate that their carrying values may not be recoverable. Using its best estimates based on reasonable assumptions and projections, the Company records an impairment loss to write such assets down to their estimated fair values if the carrying values of the assets exceed their related undiscounted expected future cash flows.

e) Earnings (Loss) Per Share.

We report basic and diluted earnings (loss) per share (EPS) for common and common share equivalents. Basic EPS is computed by dividing reported earnings by the weighted average shares outstanding. Diluted EPS is computed by adding to the weighted average shares the dilutive effect if stock options and warrants were exercised into common stock. For the years ended December 31, 2007 and 2008, the denominator in the diluted EPS computation is the same as the denominator for basic EPS due to the anti-dilutive effect of the warrants and stock options on the Company s net loss.

f) Use of Estimates.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ from those estimates. Estimates are used when accounting for stock-based transactions, uncollectible accounts receivable, asset depreciation and amortization, and taxes, among others.

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BIOLARGO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

g) Stock Options and Warrants issued for Services.

All share-based payments to employees, including grants to employee stock options, are recognized in the financial statements based on their fair values.

For stock issued to consultants and other non-employees for services, we record the expense based on the fair market value of the securities as of the date of the stock issuance. The issuance of stock warrants or options to non-employees are valued at the time of issuance utilizing the Black Scholes calculation and the amount is charged to expense.

h) Non-Cash Transactions.

We have established a policy relative to the methodology to determine the value assigned to each intangible we acquire, and/or services or products received for non-cash consideration of our common stock. The value is based on the market price of our common stock issued as consideration, at the date of the agreement of each transaction or when the service is rendered or product is received.

The methods, estimates and judgments we use in applying these most critical accounting policies have a significant impact on the results of our financial statements.

i) Revenue Recognition.

We recognize revenues based upon contract terms and completion of the sales process in accordance with Staff Accounting Bulletin No. 104, a codification of revenue recognition. Revenue was generated from product development agreements related to our iodine technology.

j) Current Accounting Pronouncements.

In May 2008, the FASB issued the final version of Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments that may be Settled in Cash Upon Conversions (Including Partial Cash Settlement) (APB 14-1) that requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer s nonconvertible debt borrowing rate. APB 14-1 is effective for fiscal years beginning after December 15, 2008, which for the Company will be fiscal 2009, and interim periods within those fiscal years and must be applied retrospectively to all periods presented, which for the Company would include the comparative quarterly presentations for fiscal 2009. Accordingly, commencing in fiscal 2010, the Company will present prior period comparative results reflecting the impact of APB 14-1 if determined to apply to the Company at that time. The Company is currently evaluating the impact APB 14-1 will have on its consolidated financial statements, if any.

In April 2008, the FASB issued Staff Position No. FAS 142-3, Determination of the Useful Life of Intangible Assets (FAS 142-3) that amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. The intent of FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 and other U.S. generally accepted accounting principles. FAS 142-3 is effective for fiscal years and interim periods beginning after December 15, 2008. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements, if any.

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BIOLARGO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, or SFAS No. 160. SFAS No. 160 amends Accounting Research Bulletin 51, Consolidated Financial Statements, or ARB 51, and requires all entities to report noncontrolling (minority) interests in subsidiaries within equity in the consolidated financial statements, but separate from the parent shareholders equity. SFAS No. 160 also requires any acquisitions or dispositions of noncontrolling interests that do not result in a change of control to be accounted for as equity transactions. Further, SFAS No. 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. We do not believe the adoption of SFAS No. 160 will have a material affect on our financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R), which revises current purchase accounting guidance in SFAS No. 141, *Business Combinations*. SFAS No. 141R requires most assets acquired and liabilities assumed in a business combination to be measured at their fair values as of the date of acquisition. SFAS No. 141R also modifies the initial measurement and subsequent remeasurement of contingent consideration and acquired contingencies, and requires that acquisition related costs be recognized as expense as incurred rather than capitalized as part of the cost of the acquisition. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008 (the Company s fiscal 2009) and is to be applied prospectively to business combinations occurring after adoption. The impact of SFAS No. 141R on the Company s consolidated financial statements will depend on the nature and extent of the Company s future acquisition activities.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Liabilities . This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. This Statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. We do not believe that the adoption of SFAS 159 will have a material affect on our financial statements.

Other recent accounting pronouncements issued by FASB (including its Emerging Issued Task Force), the American Institute of Certified Public Accountants and the SEC did not or are not believed by management to have a material impact on the Company s present or future consolidated financial statements.

Note 3. Intangible Assets/Long-lived Assets

Licensing rights are stated on the balance sheet net of accumulated amortization of $9,633,052 as of December 31, 2008. Amortization expense for the years ended December 31, 2007 and 2008 was $681,408 and $1,022,112, respectively. At December 31, 2008 the weighted average remaining amortization period for the licensing rights was approximately 10 years.

BIOLARGO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Certain agreements assigned to us in connection with our acquisition of the BioLargo technology (the Assigned Agreements) are stated on the balance sheet net of accumulated amortization of $255,285 at December 31, 2008. Amortization expense for the years ended December 31, 2007 and 2008 was $56,728 and $85,092, respectively. At December 31, 2008 the Assigned Agreements have a remaining amortization period of approximately 3 years.

Note 4. Sale of Unregistered Securities

Fall 2008 Offering

In October 2008 we commenced a private offering (the Fall 2008 Offering) of up to $1,000,000 of our 10% convertible promissory notes due October 15, 2011 (the Fall 2008 Notes), subject to an over-allotment option of 15%, or an aggregate $1,150,000 principal amount of Fall 2008 Notes. We can unilaterally convert the Fall 2008 Notes (i) on or after April 30, 2009, if we have received one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least $3 million gross proceeds of equity or debt; or (ii) on the maturity date. Accordingly, the Fall 2008 Notes may be repaid in cash or may be converted, at the noteholders option or our option, into shares of our common stock, on or before the October 15, 2011 maturity date.

As originally offered, the Fall 2008 Notes were convertible into shares of our common stock at an initial conversion price of $1.00 per share. Also as originally offered, purchasers of the Fall 2008 Notes were to receive, for no additional consideration, two stock purchase warrants, each of which entitled the holder to purchase the number of shares of the Company s Common Stock into which the principal amount of the Note was convertible. The first warrant (the Fall 2008 One-Year Warrant) was exercisable at an initial price of $1.00 per share and was due to expire on October 15, 2009. The second warrant (the Fall 2008 Three-Year Warrant and together with the One-Year Warrant, the Fall 2008 Warrants) was exercisable at an initial price of $2.00 per share and was due to expire on October 15, 2011.

On January 16, 2009, our Board of Directors amended the terms of the Offering as follows: (i) the initial conversion price of the Fall 2008 Notes was reduced from $1.00 per share to $0.50 per share; (ii) the exercise price of the Fall 2008 One-Year Warrant was reduced from $1.00 per share to $0.75 per share; (iii) the exercise price of the Fall 2008 Three-Year Warrant was reduced from $2.00 per share to $1.00 per share; and the number of shares of our Common Stock for which the Fall 2008 One-Year Warrants and the Fall 2008 Three-Year Warrants may be exercised is being increased from one share per dollar invested to two shares for each dollar invested.

From the inception of the of the Fall 2008 Offering in October 2008, through December 31, 2008 we received gross and net proceeds of $60,000 from four investors and issued Fall 2008 Notes, the principal amount of which allow for conversion into an aggregate 120,000 shares of our common stock. (See also Note 13.)

Spring 2008 Offering

Pursuant to a private offering that commenced March 2008 (the Spring 2008 Offering) and terminated August 2008, we sold $913,625 of our 10% convertible notes (the Spring 2008 Notes), which are due and payable on March 31, 2010, to 30 investors, convertible into an aggregate 676,775 shares of our common stock. The Spring 2008 Notes are convertible into shares of our common stock at an initial conversion price of $1.35 per share. The Spring 2008 Notes can be converted voluntarily by the noteholders at any time prior to the maturity date. We can unilaterally convert the Spring 2008 Notes (i) on or after September 30, 2008, if we have received one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least $3 million gross proceeds of equity or debt; or (ii) on the maturity date. Accordingly, the Spring 2008 Notes may be repaid in cash or may be converted, at our sole option, into shares of our common stock, on or before the maturity date of the Spring 2008 Notes.

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Each purchaser of the Spring 2008 Notes received, for no additional consideration, two stock purchase warrants (a one-year warrant and a three-year warrant), each of which entitles the holder to purchase the number of shares of our common stock into which the holder s Spring 2008 Note is convertible. The Spring 2008 One-Year Warrants expire on March 31, 2009 and are exercisable at $0.50 (originally $1.50) per share. The Spring 2008 Three-Year Warrants are exercisable at an initial exercise price of $2.00 per share and expire on March 31, 2011. On September 19, 2008, our Board of Directors reduced the exercise price of the Spring 2008 One-Year Warrants from $1.50 per share (the original exercise price pursuant to the terms of the Spring 2008 Offering) to $1.00 per share. On January 16, 2009, our Board of Directors reduced the exercise price of the Spring 2008 One-Year Warrants from $1.00 per share to $0.50 per share. (See Note 13.) As of the date of this Report, none of the Spring 2008 One-Year Warrants have been exercised.

2007 Offering

Pursuant to a private offering that commenced in May 2007 (the 2007 Offering) and terminated December 2007, we sold an aggregate $1,000,000 of our convertible notes, which are due and payable on September 30, 2009 (2009 Notes). Interest accrues at 10% compounding annually and is payable at our option in cash or stock at an initial conversion rate of $0.70 per share. Purchasers of the 2009 Notes received, for no additional consideration, stock purchase warrants (the 2009 Warrants) entitling the holder to purchase a number of shares of our common stock equal to the number of shares of common stock into which the principal amount of the investor s 2009 Note is convertible. The 2009 Warrants are exercisable at $1.30 per share and will expire on September 30, 2010. (See Note 5.)

The 2009 Notes are convertible into shares of our common stock at an initial conversion price of $0.70 per share. The 2009 Notes can be converted voluntarily by the noteholders at any time. We can unilaterally convert the 2009 Notes (i) on or after September 30, 2007, if we receive one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least $3 million gross proceeds of equity or debt; or (ii) on the maturity date. Accordingly, the 2009 Notes may be repaid in cash or may be converted, at the noteholders option or our option, into shares of our common stock, on or before the maturity date of the 2009 Notes.

From the inception of the 2007 Offering in May 2007, through December 31, 2007, we received gross and net proceeds of $1,000,000 and issued 2009 Notes, the principal amount of which allow for conversion into an aggregate 1,428,582 shares of our common stock.

The 2007 Notes have not been converted and remain outstanding, and are recorded on the December 31, 2008 balance sheet as convertible notes payable as current liabilities.

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Fall 2006 Offering

In September 2006, we commenced a private offering that terminated in April 2007 (the Fall 2006 Offering). We sold an aggregate $1,000,000 principal amount of our promissory notes (the Fall 2006 Notes) due and payable September 13, 2008 to 43 investors, the principal amount of which is convertible into 1,454,546 shares of our common stock. Of this amount, we sold an aggregate $484,000 principal amount of Fall 2006 Notes as of December 31, 2006, and the $516,000 during 2007. Each Fall 2006 Note bears interest at a rate of 10% per annum, such interest to be paid, at our 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 the number of shares of our common stock into which the principal amount of the investor s Fall 2006 Note is convertible. The Fall 2006 Warrant was exercisable at an initial price of $1.25 per share, and expired on September 13, 2009. (See Note 5.)

The Fall 2006 Notes may be subordinated in an amount up to $5 million of additional debt financing that we may incur prior to the maturity date. The Fall 2006 Notes are convertible into shares of our common stock at an initial conversion price of $0.6875 per share. The Fall 2006 Notes can be converted voluntarily by the noteholders at any time prior to the maturity date. We can unilaterally convert the Fall 2006 Notes (i) on or after September 13, 2007, if we have received one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least $3 million gross proceeds of equity or debt; or (ii) on the maturity date. Accordingly, the Fall 2006 Notes may be repaid in cash or may be converted, at the noteholder s option or our option, into shares of our common stock, on the maturity date of the Fall 2006 Notes.

From the inception of the Fall 2006 Offering in September 2006 through its termination in April 2007, we received gross and net proceeds of $1,000,000 and issued Fall 2006 Notes, the principal amount of which allow for conversion into an aggregate 1,454,564 shares of our common stock.

In May 2008, at the request of one holder of Fall 2006 Notes, we converted an aggregate principal amount of $75,000 and $10,687 of accrued but unpaid interest into 124,636 shares of our common stock, at a conversion rate of $0.6875 per share. On September 13, 2008, we converted an aggregate principal amount of $925,000, which amount represented the entire then outstanding principal amount of the Fall 2006 Notes, and $162,322 of accrued but unpaid interest, into an aggregate 1,581,580 shares of our common stock, at a conversion rate of $0.6875 per share. As of December 31, 2008, all of the Fall 2006 Notes have been converted into shares of our common stock.

Issuance of Securities in exchange for payment of payables

On March 15, 2007, our board of directors and Mr. Calvert agreed to convert unpaid accrued compensation due Mr. Calvert for periods prior to January 1, 2007, in the amount of $337,796, into 900,790 shares of our common stock at a price of $0.375 per share, which was the last bid price on the date of conversion.

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On March 15, 2007, we 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. These conversions were effected at various prices ranging from $0.20 to $0.625 per share which represents the market price of our common stock at the time the conversions were agreed to.

On March 21, 2007 we converted an aggregate principal amount of $1,953,120 and aggregate accrued but unpaid interest in the amount of $282,156, related to 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 and were converted into an aggregate 6,985,441 shares of our common stock. We recorded an additional non-cash interest expense of $895,014 related to the conversion of these note payable obligations, because the conversion common stock price set forth in these notes was less than the market price of our common stock on the date of conversion.

On April 11, 2007, an investor converted an aggregate $717,138 of principal and accrued but unpaid interest on a promissory note issued in 2003 into 2,031,553 shares of our common stock. The note had a maturity date of May 1, 2007, and 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.

On April 30, 2007, the Company completed the acquisition of the BioLargo technology. In connection with the completion of the acquisition of the BioLargo technology, the Company issued 22,139,012 shares of its common stock. The fair value of the purchase price was calculated by using the weighted average of the daily closing price of the Company s common stock from the date of the letter of intent until the closing of the acquisition multiplied by the number of shares issued to IOWC, resulting in a fair value of $11,733,676. (See Note 1 and Note 3)

On July 16, 2007, we converted an aggregate $154,660 of accrued payables to 13 of our current or former consultants into an aggregate 237,939 shares of our common stock. We also converted an aggregate $40,000 of accrued payables to two of our directors into an aggregate 61,538 shares of our common stock. These conversions were effected at $0.65 per share, the closing price of a share of our common stock on the conversion date.

On October 5, 2007, we converted an aggregate $25,000 of accrued payables to a consultant into 69,445 shares of our common stock, at $0.36 per share, which was the closing price of a share of our common stock on the conversion date.

On October 18, 2007, we converted an aggregate $35,500 of accrued payables to three of our consultants into an aggregate 56,351 shares of our common stock. We also converted an aggregate $21,400 of accrued payables to three of our directors into an aggregate 33,970 shares of our common stock. These conversions were effected at $0.63 per share, the closing price of a share of our common stock on the conversion date.

On December 14, 2007, we converted an aggregate $59,720 of accrued payables to two of our consultants into an aggregate 99,534 shares of our common stock, at $0.60 per share, which was the last closing price of a share of our common stock on the conversion date.

On December 31, 2007, we converted an aggregate $48,000 of accrued payables to four of our current or former consultants into an aggregate 50,001 shares of our common stock. We also converted an aggregate $16,000 of accrued payables to two of our directors into an aggregate 16,667 shares of our common stock. These conversions were effected at $0.96 per share, the closing price of a share of our common stock on the conversion date.

On November 6, 2008, we issued 50,000 shares of our common stock to a consultant in exchange for consulting and advisory services to us in the areas of shareholder communications, public relations and relations with the investment community generally.

On December 29, 2008, we issued 16,950 shares of our common stock to a director in exchange for his services as a director. We also issued, on December 29, 2008, 20,491 shares of our common stock in payment of rent pursuant to our Sublease agreement.

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.

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Note 5. Warrants

During the year ended December 31, 2008, we agreed to issue warrants to purchase an aggregate 2,043,549 shares of our common stock. This included the following:

(i) We issued warrants to purchase up to an aggregate 240,000 shares of our common stock to purchasers of our Fall 2008 Notes, consisting of Fall 2008 One-Year Warrants to purchase 120,000 shares which expire October 15, 2009, at an original exercise price of $1.00 per share, and Fall 2008 Three-Year Warrants to purchase 120,000 shares which expire October 15, 2011, at an original exercise price of $2.00 per share. (Subsequent to the year ended December 31, 2008, we reduced the exercise price of these warrants; see Note 13.)

(ii) We issued warrants to purchase up to an aggregate 1,353,550 shares of our common stock to purchasers of our Spring 2008 Notes, consisting of Spring 2008 One-Year Warrants to purchase 676,775 shares which expire March 31, 2009, at an original exercise price of $1.50 per share, and Spring 2008 Three-Year Warrants to purchase 676,775 shares which expire March 31, 2011, at an original exercise price of $2.00 per share. On September 18, 2009, the exercise price of the Spring 2008 One-Year Warrants was reduced from $1.50 to $1.00, resulting in additional fair value totaling $76,300, which is recorded as Discount on Convertible Notes. (Subsequent to the year ended December 31, 2008, we further reduced the exercise price of the Spring 2008 One-Year Warrants; see Note 13.)

(iii) We issued warrants to purchase up to 199,999 shares of our common stock to a consultant in exchange for services, pursuant to terms of the contract with the consultant, as follows: a warrant on January 31, 2008 to purchase up to 33,333 shares of common stock at $1.00 per share; a warrant on January 31, 2008 to purchase up to 100,000 shares of common stock at $1.50 per share; a warrant on February 29, 2008 to purchase up to 33,333 shares of common stock at $1.58 per share; and a warrant on March 31, 2008 to purchase up to 33,333 shares of common stock at $1.24 per share. These warrants vested immediately and expire ten years from the date of their respective issuance.

(iv) We issued a warrant to purchase up to 250,000 shares of our common stock in exchange for services, pursuant to terms of the contract with a consultant, at an exercise price of $1.00 per share. This warrant was issued October 31, 2008, and vests in 50,000 share increments on the last day of each of the subsequent five months and expire three years from the date of issuance.

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We have certain warrants outstanding to purchase our common stock, at various prices, as described in the following table:

	Number of Shares	Price Range	
Outstanding as of December 31, 2007	5,292,682	$ 0.125	1.50
Issued	2,043,549	$ 1.00	2.00
Exercised	(487,000)	$	1.25
Expired	(1,289,534)	$ 0.88	1.25
Outstanding as of December 31, 2008	5,559,697	$ 0.125	2.00

To determine interest expense related to our outstanding warrants issued in conjunction with debt offerings, the fair value of each award grant is estimated on the date of grant using the Black-Scholes option-pricing model and the calculated value is amortized over the life of the warrant. The determination of expense of warrants issued for services or settlement also uses the option-pricing model. The principal assumptions we used in applying this model were as follows:

	2007		2008	
Risk free interest rate		4.52%	1.83	2.49%
Expected volatility	276	310%	203	615%
Expected dividend yield				
Forfeiture rate				
Expected life in years	1.25	1.50	0.50	3.00

The risk-free interest rate is based on U.S Treasury yields in effect at the time of grant. Expected volatilities are based on historical volatility of our common stock. The expected term is presumed to be the mid-point between the vesting date and the end of the contractual term.

The aggregate fair value of the warrants issued and outstanding as of December 31, 2008 totaled $2,992,951. A total of $375,478 was issued to consultants of which $317,225 was expensed during the year ended December 31, 2008 and the remaining $58,253 was expensed during the year ended December 31, 2007. The remaining fair value of the warrants issued and outstanding of $2,617,473 was issued in conjunction with our convertible notes and is recorded on our balance sheet as discount on convertible notes net of accumulated amortization of $1,647,785. During the years ended December 31, 2008 and December 31, 2007, we recorded interest expense related to the amortization of the discount on convertible notes of $877,097 and $514,946, respectively.

During the year ended December 31, 2008 we received an aggregate $608,750 from the exercise of our warrants and issued 487,000 shares of our common stock at an exercise price of $1.25 per share.

During the year ended December 31, 2008, warrants to purchase 1,276,200 shares of our common stock at an exercise price of $1.25 and warrants to purchase 13,334 shares of our common stock at an exercise price of $1.50 expired unexercised.

During 2007, we issued warrants to purchase an aggregate 2,179,128 shares of our common stock to investors as part of two private offerings, as follows. In connection with the Fall 2006 Offering we issued warrants to purchase 704,000 shares of our common stock. The warrants allow for the holders to purchase shares of our common stock at an exercise price of $1.25 per share, and expire on September 13, 2009. In connection with the 2007 Offering, we issued warrants to purchase 1,428,582 shares of our common stock. The warrants allow for the holder to purchase shares of our common stock at an exercise price of $1.30 per share, and expire September 30, 2010. (See Note 5.)

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Also during 2007, in addition to warrants issued to investors, we issued warrants to purchase an aggregate 66,666 shares of our common stock to a consultant in exchange for services. The warrants allow the holder to purchase shares of our common stock at an exercise price of $1.00 per share, are fully vested, and expire three years from the date of issuance. The fair value of these warrants was $58,253 all of which was expensed during the year ended December 31, 2007.

Note 6. Stockholders Equity

Preferred Stock

Our certificate of incorporation authorizes our Board of Directors to issue preferred stock, from time to time, on such terms and conditions as they shall determine. As of December 31, 2008 and December 31, 2007 there were no outstanding shares of our preferred stock.

Common Stock

As of December 31, 2007 and 2008 there were 39,980,611 and 42,261,268 shares of common stock outstanding, respectively. The increase in shares during the year ended December 31, 2008 was due to (i) the issuance of 487,000 shares of our common stock in connection with the exercise of warrants (see Note 5), (ii) the issuance of 1,706,216 shares of our common stock in connection with the conversion of the Fall 2006 Notes, including principal and accrued and unpaid interest (see Note 4), (iii) the issuance of 50,000 shares of our common stock to a consultant in exchange for services, (iv) the issuance of 16,950 shares of our common stock to a director in exchange for his services as a director, and (v) the issuance of 20,491 share of our common stock in payment of rent pursuant to our Sublease Agreement (see Note 12).

Note 7. Stock-Based Compensation and Other Employee Benefit Plans

2007 Equity Incentive Plan

On August 7, 2007, our Board of Directors adopted the BioLargo, Inc. 2007 Equity Incentive Plan (2007 Plan) as a means of providing our directors, key employees and consultants additional incentive to provide services. Both stock options and stock grants may be made under this plan. The Compensation Committee administers this plan. The plan allows grants of common shares or options to purchase common shares. As plan administrator, the Compensation Committee has sole discretion to set the price of the options. The Compensation Committee may at any time amend or terminate the plan.

Under this plan, 6,000,000 shares of our common stock are reserved for issuance under awards. Any shares that are represented by awards under the 2007 Plan that are forfeited, expire, or are canceled or settled in cash without delivery of shares, or that are forfeited back to us or reacquired by us after delivery for any reason, or that are tendered to us or withheld to pay the exercise price or related tax withholding obligations in connection with any award under the 2007 Plan, will again be available for awards under the 2007 Plan. Only shares actually issued under the 2007 Plan will reduce the share reserve. If we acquire another entity through a merger or similar transaction and issue replacement awards under the 2007 Plan to employees, officers and directors of the acquired entity, those awards, to the extent permitted under applicable laws and securities exchange rules, will not reduce the number of shares reserved for the 2007 Plan.

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The 2007 Plan imposes additional maximum limitations, which limitations will be adjusted to take into account stock splits, reverse stock splits and other similar occurrences. The maximum number of shares that may be issued in connection with incentive stock options granted to any one person in any calendar year intended to qualify under Internal Revenue Code Section 422 is 160,000 shares. The maximum number of shares that may be subject to stock options or stock appreciation rights granted to any one person in any calendar year is 200,000 shares, except that this limit is 400,000 shares if the grant is made in the year of the recipient s initial employment. The maximum number of shares that may be subject to restricted stock or restricted stock units granted to any one person in any calendar year is 200,000 shares.

The maximum number shares that may be subject to awards granted to any one Participant in any calendar year of (i) performance shares, and/or performance units (the value of which is based on the Fair Market Value of a share of our common stock), is 200,000 shares; and (ii) of performance units (the value of which is not based on the Fair Market Value of a share of our common stock) that could result a payment of more than $500,000.

During the year ended December 31, 2008, we granted options to purchase shares of our common stock at the rate of 10,000 shares per month, or a total of 140,000 shares, to our Chief Financial Officer, pursuant to the terms of our engagement agreement with him. These options are exercisable at various exercise prices ranging between $0.35 and $1.89 depending upon their respective dates of grant. Each option is fully vested upon grant and is exercisable for ten years from its respective date of grant.

On May 29, 2008, we issued two options pursuant to the 2007 Plan to purchase up to 10,000 shares of our common stock (20,000 shares in the aggregate) at an exercise price of $1.45 per share to each of our independent directors (each, a Director Option). Each Director Option is exercisable for ten years and vests on the first anniversary of its date of grant. The fair value of the Director Options was $29,000, all of which was expensed in the year ended December 31, 2008.

During the year ended December 31, 2007, we issued options pursuant to the 2007 Plan to purchase up to an aggregate 625,000 shares of our common stock. The fair value of these options was an aggregate $576,700. The options are exercisable at a price range of $0.40 to $1.03 and expire ten years from the grant date. Of this amount, $106,700 was expensed during the year ended December 31, 2007. The remaining fair value of $470,000 will be expensed ratably over the applicable vesting period.

During the years ended December 31, 2007 and 2008 we recorded an aggregate $106,700 and $365,561 in option compensation expense related to options issued pursuant to the 2007 Plan.

Activity for our stock options under the 2007 Plan for the year ended December 31, 2008 is as follows:

	Options Outstanding	Shares Available	Price per share			Weighted Average Price per share
Balances, December 31, 2007	625,000	5,375,000	$	0.40	$1.03	$ 0.95
Granted	160,000	(160,000)	$	0.35	1.89	$ 1.31
Exercised						
Canceled						
Balances, December 31, 2008	785,000	5,215,000	$	0.35	$1.89	$ 1.02

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The following table summarizes the stock options issued under the 2007 Equity Plan outstanding at December 31, 2008.

Options Outstanding at December 31, 2008	Exercise Price	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Currently Exercisable Number of Shares at December 31, 2008	Currently Exercisable Weighted Average Exercise Price
20,000	$ 0.40	10	$ 0.40	20,000	$ 0.40
605,000	$ 0.94 1.03	10	$ 0.97	105,000	$ 0.94
50,000	$ 1.89	10	$ 1.89	50,000	$ 1.89
110,000	$ 0.35 1.65	10	$ 1.04	110,000	$ 1.04

Stock Options Issued Outside the 2007 Equity Incentive Plan

On January 10, 2008, pursuant to consulting agreements with Jeffrey C. Wallace and Robert J. Szolomayer (see Note 12), we issued options outside the 2007 Equity Plan to purchase 2,400,000 shares of our common stock at $0.99 per share. Each option is exercisable for five years, and vests in four equal installments commencing on the date of the respective consulting agreement and continuing on each of December 31, 2008, December 31, 2009 and December 31, 2010 (each, an Option Vesting Date); provided that no additional portion of each option shall vest if Mr. Wallace or Mr. Szolomayer, as the case may be, is not providing services under his consulting agreement as of such Option Vesting Date. The fair value of these options was $2,358,240, and for the years ended December 31, 2007 and 2008 we recognized $0 and $1,181,340 of consulting expense, respectively.

On April 30, 2007, we issued an option outside the 2007 Equity Plan to our Chief Executive Officer to purchase 7,733,259 shares of our common stock at $0.18 per share, a discount to the $0.37 closing price on the date of issuance. This option vests over three years in equal amounts on the anniversary date, and expires ten years from the date of issuance. The fair value of this option was $2,861,306, and for the years ended December 31, 2007 and 2008 we recognized $635,846 and $953,768 of compensation expense, respectively.

We recognize compensation expense for stock option awards on a straight-line basis over the applicable service period of the award, which is the vesting period. Share-based compensation expense is based on the grant date fair value estimated in accordance with the provisions of SFAS 123R, using the Black-Scholes Option Pricing Model. The following methodology and assumptions were used to calculate share based compensation for the year ended December 31, 2008:

	Non plan Option	2007 Plan
Risk free interest rate	2.17 4.50%	2.75 4.72%
Expected volatility	800%	800 837%
Expected dividend yield		
Forfeiture rate		
Expected life in years	5	5

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Expected price volatility is the measure by which our stock price is expected to fluctuate during the expected term of an option. Expected volatility is derived from the historical daily change in the market price of our common stock, as we believe that historical volatility is the best indicator of future volatility.

Following the guidance of Staff Accounting Bulletin No. 107, we follow the shortcut method to determine the expected term of plain vanilla options issued to employees and Directors. The expected term is presumed to be the mid-point between the vesting date and the end of the contractual term.

The risk-free interest rate used in the Black-Scholes calculation is based on the prevailing U.S Treasury yield as determined by the U.S. Federal Reserve. We have never paid any cash dividends on our common stock and do not anticipate paying cash dividends on our common stock in the foreseeable future.

Stock-based compensation expense recognized in the consolidated statements of operations is based on awards ultimately expected to vest, reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant, and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Historically, we have not had significant forfeitures of unvested stock options granted to employees and Directors. A significant number of our stock option grants are fully vested at issuance or have short vesting provisions. Therefore, we have estimated the forfeiture rate of our outstanding stock options as zero.

Note 8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included the following:

	December 31, 2007	December 31, 2008
Accounts payable and accrued expenses	$ 229,518	$ 302,518
Accrued interest	493,860	560,031
Officer and Board of Director payable	57,843	130,882
Total Accounts Payable and Accrued Expenses	$ 781,221	$ 993,431

The accrued interest as of December 31, 2008, includes $380,658 of accrued and unpaid interest related to a note held by New Millennium Capital Partners, LLC (New Millennium), a related party, which was not included in the conversion of the principal and which balance will remain outstanding and will not accrue additional interest (see Note 10). The remaining $179,373 of accrued interest relates to the outstanding convertible notes. During 2008 we converted $173,009 of accrued and unpaid interest into 1,706,216 shares of our common stock at $0.6875 per share. During the years ended December 31, 2007 and 2008, we recorded $161,742 and $237,228 of interest expense related to the convertible notes outstanding, respectively.

Note 9. Other Promissory Notes

On November 1, 2004, we converted $25,000 of obligations owed to a former provider of professional services into a promissory note, which amount accrued interest at 5% per annum. As of September 1, 2007, we agreed to enter into a new loan agreement which converted the then accrued interest totaling $5,000 to principal and entered into a new one year note totaling $30,176, payable September 30, 2008 bearing interest at the rate of 6% per annum. We made certain progress payments in accordance with the terms of the new note and in June 2008 we fully satisfied the remaining balance due on the new note.

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Note 10. Related Party Transactions

New Millennium

In March 2003, New Millennium, a company controlled by our president and chief executive officer, Dennis Calvert, purchased from a third party a promissory note in the principal amount of $1,120,000 we assumed pursuant to a licensing transaction in October 2002.

On April 28, 2006, New Millennium agreed to amend the terms of the $1,120,000 promissory note (the New Millennium Note) to (i) extend the due date to January 15, 2008; (ii) waive any payments of interest until it becomes due; (iii) reduce the principal amount from $1,120,000 to $900,000, equal to a 19.6% reduction; and (iv) correspondingly reduce the accrued but unpaid interest due under the terms of the note from $318,000 to $256,000, also equal to a 19.6% reduction.

On April 13, 2007, we entered into an agreement with New Millennium whereby the $900,000 principal amount of the New Millennium Note was converted into 1,636,364 shares of our common stock, at a price of $0.55 per share, which was the last bid price on the date of conversion. The remaining accrued but unpaid interest in the amount of $380,658 was not converted, and the parties agreed that no further interest would accrue, and that the interest would be paid on or before January 15, 2008, subsequently extended to April 30, 2009 by the Board of Directors and New Millennium.

Note 11. Provision for Income Taxes

At December 31, 2008 we had federal and California tax net operating loss carry-forwards of approximately $32.9 million and $23.0 million, respectively. The difference between federal and California tax loss carry-forwards is primarily due to limitations on California loss carry-forwards. Due to changes in our ownership through various common stock issuances during 2002 and 2007, the utilization of net operating loss carry-forwards may be subject to annual limitations under provisions of the Internal Revenue Code. Such limitations could result in the permanent loss of a portion of the net operating loss carry-forwards.

At December 31, 2008 we had amortization resulting in deferred tax assets totaling approximately $1,109,940. Realization of our deferred tax assets, which relate to operating loss carry-forwards and timing differences, is dependent on future earnings. The timing and amount of future earnings are uncertain and therefore we have established a 100% valuation allowance.

Note 12. Commitments and Contingencies

Litigation

From time to time, we are party to various claims, legal actions and complaints arising periodically in the ordinary course of our business. In the opinion of management, no such matters will have a material adverse effect on our financial position or results of operations.

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Attorney Fee Settlement

In February 2008, we agreed to pay $25,000, issue 15,000 shares of our common stock, and issue warrants to purchase an aggregate 15,000 shares of our common stock at $1.50 per share, which warrants would expire three years from the date of issuance, in settlement of an account owed to a service provider. Since the date of the settlement, certain facts have come to light, and therefore, as of the date of this Report, we have not issued the common stock or the warrants, but have recorded a $42,050 expense in connection therewith.

Joseph L. Provenzano Employment Agreement

On January 10, 2008, we entered into an employment agreement with Joseph L. Provenzano (the Provenzano Employment Agreement), pursuant to which Mr. Provenzano agreed to serve as Vice President of Operations effective January 1, 2008, in addition to continuing to serve as Corporate Secretary. The Provenzano Employment Agreement replaces a previous employment agreement dated March 1, 2003.

The Provenzano Employment Agreements provides that Mr. Provenzano will receive base compensation of $79,200 annually (with automatic 10% annual increases). Mr. Provenzano is also entitled to reimbursement for authorized expenses he incurs in the course of his employment. In addition, Mr. Provenzano is eligible to receive discretionary bonuses, participate in benefits made generally available to our employees, and receive grants under our 2007 Equity Incentive Plan.

The initial term of the Provenzano Employment Agreement is one year and is automatically renewable for additional one-year periods unless we give at least 90 days notice of non-renewal. The Provenzano Employment Agreement also contains additional provisions typical of an agreement of this nature.

In connection with the execution of the Provenzano Employment Agreement, Mr. Provenzano also executed a non-disclosure agreement requiring him to keep certain information confidential, assigning to us creations and inventions during the term of his employment, and prohibiting him from soliciting business during the term of his employment and for a period of time thereafter.

Engagement of Charles K. Dargan, II as Chief Financial Officer

On February 1, 2008, we engaged Charles K. Dargan, II to serve as our Chief Financial Officer for a term of one year, subject to earlier termination on 30 days notice, and simultaneously Dennis P. Calvert resigned as our Chief Financial Officer. Mr. Calvert will continue to serve as our Chief Executive Officer, President and a director. During the term, Mr. Dargan will receive a fee of $4,000 per month, which amount will be increased to $8,000 or more in months during which we file our periodic reports with the Securities and Exchange Commission.

In addition to the cash compensation specified above, Mr. Dargan will be issued stock options over the term, as follows:

- an option to purchase 50,000 shares of our common stock, granted on February 1, 2008, at an exercise price equal to the closing price of a share of our common stock on the grant date, such option to vest in full 90 days after grant; and
- options to purchase 10,000 shares of our common stock, each such option to be granted on the last day of each month commencing April 2008 and ending January 2009, provided that this Agreement has not been terminated prior to each such grant date, at an exercise price equal to the closing price of a share of our common stock on each grant date, each such option to be fully vested upon grant.

BIOLARGO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mr. Dargan will be reimbursed for business expenses he incurs in connection with the performance of his services as our Chief Financial Officer. The agreement with Mr. Dargan also contains provisions regarding indemnification and arbitration of disputes.

Subsequent to the year ended December 31, 2008, Mr. Dargan s agreement was extended. (See Note 13.)

Other Consulting Agreements

On January 10, 2008, we entered into consulting agreements with each of Jeffrey C. Wallace (the Wallace Consulting Agreement) and Robert J. Szolomayer (individually the Szolomayer Consulting Agreement and collectively with the Wallace Consulting Agreement, the Consulting Agreements). Pursuant to the Wallace Consulting Agreement, Mr. Wallace has agreed to serve as our Director of Sales and Marketing effective January 1, 2008, and pursuant to the Szolomayer Consulting Agreement, Mr. Szolomayer has agreed to serve as our Director of Corporate Development effective January 1, 2008.

Other than referring to respective titles, the terms of the Consulting Agreements are identical. The Consulting Agreements provide that each of Messrs. Wallace and Szolomayer will receive (i) base compensation of $90,000 annually, (ii) a share of a commission pool (the Commission Pool) to be established with respect to revenue it receives from third-parties evaluating, developing or licensing our BioLargo technology; and (iii) a stock purchase option (the Option). Each of Messrs. Wallace and Szolomayer is also entitled to reimbursement for authorized expenses he incurs in the course of his consultancy. The Commission Pool shall consist of an amount of money equal to a percentage of net licensing revenue (as defined in each Consulting Agreement), in the following amounts:

- not less than 4% nor more than 7% of the Net Licensing Revenue actually and indefeasibly received by BioLargo in the first 12 months of the License Agreement Period for such License Agreement;
- not less than 3% nor more than 5% of the Net Licensing Revenue actually and indefeasibly received by BioLargo in the second 12 months of the License Agreement Period for such License Agreement;
- not less than 1% nor more than 3% of the Net Licensing Revenue actually and indefeasibly received by BioLargo in the third 12 months of the License Agreement Period for such License Agreement; and
- not less than 0.75% nor more than 2% of the Net Licensing Revenue actually and indefeasibly received by BioLargo in the fourth 12 months and for each 12 month period thereafter, of the License Agreement Period for such License Agreement.

Each of Messrs. Wallace and Szolomayer shall be entitled to one-half (1/2) of the above-stated minimum amounts included in the Commission Pool during each calendar year during the term of the Consulting Agreements. Any and all of amounts in the Commission Pool which we may, in our sole and absolute discretion, contribute in excess of such above-stated minimum amounts up to the above-stated maximum amounts shall be paid to such persons, including either or both of Messrs. Wallace and Szolomayer, and in such amounts as we shall determine in its sole and absolutely discretion. Pursuant to the Consulting Agreements, each of Messrs. Wallace and Szolomayer received an Option to purchase 1,200,000 shares of our common stock at $0.99 per share. Each Option is exercisable for five years, and vests in four equal installments commencing on the date of the respective Consulting Agreement and continuing on each of December 31, 2008, December 31, 2009 and December 31, 2010 (each, an Option Vesting Date); provided that no additional portion of each Option shall vest if Mr. Wallace or Mr. Szolomayer, as the case may be, is not providing services under his Consulting Agreement as of such Option Vesting Date. (See Note 7.)

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The initial term of each of the Consulting Agreements is four years. Each of the Consulting Agreements also contains additional provisions typical of an agreement of this nature.

In connection with the execution of his respective Consulting Agreement, each of Messrs. Wallace and Szolomayer also executed a non-disclosure agreement requiring him to keep certain information confidential, assigning creations and inventions during the term of his consultancy and prohibiting him from soliciting business during the term of his consultancy and for a period of time thereafter.

Sublease of Principal Executive Offices

On November 13, 2008, we entered into an agreement (the Sublease) with a law firm (the Sublessor) that has provided legal services to us from time to time, to sublease space as our principal executive offices located at Suite 1155, 2603 Main Street, Irvine, California (the Premises). Previously, non-exclusive use of the Premises as our principal executive offices had been provided to us free-of-charge by the Sublessor. The Premises consists of a self-contained office suite of approximately 2,842 square feet and is fully built out. We believe that the space provided by the Premises is adequate for our needs for the foreseeable future.

We have agreed to pay the Sublessor rent in the amount of $7,966 per month through December 31, 2008 and $7,114 per month from January 1, 2009 through December 31, 2009 (pro-rated for partial months), which consists of base rent, certain pass-through charges from the Sublessor s landlord (the Landlord) and reserved parking spaces. We are not obligated to pay a security deposit to the Sublessor or the Landlord. We may pay each month s rent to the Sublessor, at our option, in (i) cash or (ii) shares of our common stock, valued at the average closing bid price for the ten trading days preceding and including the last day of the preceding month.

We are subleasing the Premises on a month-to-month basis. The Sublease terminates on December 31, 2009, which is the end of the term under the Sublessor s lease (the Master Lease) with its Landlord. However, either the Sublessor or we can terminate the Sublease on 30 days notice to the other party, in which case we would have no further obligation to the Sublessor.

We have agreed to comply with all terms and conditions of the Master Lease as it relates to the Premises, including without limitation provisions relating to the maintenance of insurance, indemnification of the Landlord, subordination in the event of certain claims and other matters typically found in commercial leases. The Landlord has consented to the sublease.

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 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.

BIOLARGO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the services to be provided by the 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 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 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 Consultant s Warrant shall vest if the 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 Consultant has also entered into a non-disclosure agreement with us.

Stock-Based Commitments

We have utilized and presently utilize the services of a number of consultants who have been and are compensated with shares of our common stock or securities convertible into or exercisable for shares of our common stock. Therefore, we may be obligated to issue additional securities to these consultants pursuant to the terms of our arrangements or agreements with them.

Note 13. Subsequent Events

Fall 2008 Offering Repricing

On January 16, 2009, our Board of Directors amended the terms of the Fall 2008 Offering as follows: (i) the initial conversion price of the Fall 2008 Notes was reduced from $1.00 per share to $0.50 per share; (ii) the exercise price of the Fall 2008 One-Year Warrant was reduced from $1.00 per share to $0.75 per share; (iii) the exercise price of the Fall 2008 Three-Year Warrant was reduced from $2.00 per share to $1.00 per share; and the number of shares of our Common Stock for which the Fall 2008 One-Year Warrants and the Fall 2008 Three-Year Warrants may be exercised is being increased from one share per dollar invested to two shares for each dollar invested.

Subsequent to the year ended December 31, 2008, through March 27, 2009, we sold $443,000 aggregate principal amount of Fall 2008 Notes, and issued Fall 2008 One-Year Warrants to purchase an aggregate 886,000 shares of our common stock at an exercise price of $0.75, and Fall 2008 Three-Year Warrants to purchase an aggregate 886,000 shares of our common stock at an exercise price of $1.00 per share, to ten investors.

Extension of Engagement of Charles K. Dargan, II as Chief Financial Officer

On February 23, 2009, we agreed to extend the engagement agreement dated February 1, 2008 (the Engagement Agreement), pursuant to which Mr. Dargan served as the Company s Chief Financial Officer for a period of one year, expiring January 31, 2009. The Engagement Extension Agreement dated as of February 1, 2009 (the Engagement Extension Agreement) provides for an additional one-year term effective February 1, 2009 (the Extended Term). During the Extended Term, Mr. Dargan will continue to receive a fee of $4,000 per month, which amount will be increased to $8,000 or more in months during which the Company files its periodic reports with the Securities and Exchange Commission.

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In addition to the cash compensation specified above, Mr. Dargan will be issued stock options over the Extended Term as follows:

- an option to purchase 50,000 shares of the Company s common stock, granted on February 23, 2009, at an exercise price equal to the closing price of a share of the Company s common stock on the grant date, such option to vest in full 90 days after grant; and
- options to purchase 10,000 shares of the Company s common stock, each such option to be granted on the last day of each month commencing April 2009 and ending January 2010, provided that the Engagement Extension Agreement with Mr. Dargan has not been terminated prior to each such grant date, at an exercise price equal to the closing price of a share of the Company s common stock on each grant date, each such option to be fully vested upon grant.

Mr. Dargan will continue to be reimbursed for business expenses he incurs in connection with the performance of his services as our Chief Financial Officer. All other provisions of the Engagement Agreement not expressly amended pursuant to the Engagement Extension Agreement remain the same, including provisions regarding indemnification and arbitration of disputes.

INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit
3.1	Amended and Restated Certificate of Incorporation filed March 16, 2007(6)
3.2	Certificate of Designations creating Series A Preferred Stock (3)
3.3	Bylaws, as amended and restated (1)
4.1	Amended and Restated Warrant No. AG-1 to purchase shares of common stock held by Augustine II LLC (3)
4.2	Secured Promissory Note in the face amount of $1,120,000 issued to Summitt Ventures, Inc., assigned to New Millennium Capital Partners, LLC (2)
4.3	Warrant Number AG-II to Purchase Common Stock issued July 29, 2005 issued to Augustine II, LLC (4)
4.4	Form of Promissory Note issued in the Fall 2006 Offering (5)
4.5	Form of Warrant issued in the Fall 2006 Offering(6)
4.6	Form of Promissory Note issued in the 2007 Offering (10)
4.7	Form of Warrant issued in the 2007 Offering (10)
4.8	Conversion Agreement dated April 13, 2007 between the Company and New Millennium Capital Partners LLC(6)
4.9	Form of Convertible Promissory Note issued in the Spring 2008 Offering (12)
4.10	Form of One-Year Warrant issued in the Spring 2008 Offering (12)
4.11	Form of Three-Year Warrant issued in the Spring 2008 Offering (12)
4.12	Form of Warrant to Purchase Common Stock issued to SC Capital Partners, LLC (12)
4.13*	Form of Convertible Promissory Note issued in the Fall 2008 Offering
4.14*	Form of One-Year Warrant issued in the Fall 2008 Offering
4.15*	Form of Three-Year Warrant issued in the Fall 2008 Offering
4.16*	Amended Form of Convertible Promissory Note issued in the Spring 2008 Offering
4.17*	Amended Form of One-Year Warrant issued in the Spring 2008 Offering
4.18*	Amended Form of Three-Year Warrant issued in the Spring 2008 Offering

10.1	Asset Purchase Agreement dated as of April 30, 2007 between the Company, BioLargo Life Technologies, Inc., IOWC Technologies, Inc., and Kenneth R. Code(6)
10.2	Employment Agreement dated as of April 30, 2007 between the Company and Dennis Calvert(6)
10.3	Employment Agreement dated as of April 30, 2007 between the Company and Kenneth R. Code(6)

Exhibit No.	Description of Exhibit
10.4	Assignment of USPTO Patent Application 11/516,958 to BioLargo Life Technologies, Inc. (6)
10.5	Assignment of USPTO Patent Application 11/516,960 to BioLargo Life Technologies, Inc. (6)
10.6	Assignment of USPTO Patent Application 60/850,976 to BioLargo Life Technologies, Inc. (6)
10.7	Assignment of USPTO Patent Application 60/873,763 to BioLargo Life Technologies, Inc. (6)
10.8	Assignment of USPTO Patent Application 60/881,061 to BioLargo Life Technologies, Inc. (6)
10.9	Assignment of USPTO Patent Application 60/900,374 to BioLargo Life Technologies, Inc. (6)
10.10	Promissory note related to professional fees(7)
10.11	BioLargo, Inc. 2007 Equity Incentive Plan(7)
10.12	Employment Agreement dated as of January 1, 2008 between BioLargo, Inc. and Joseph L. Provenzano(8)
10.13	Consulting Agreement dated as of January 1, 2008 between BioLargo, Inc. and Jeffrey C. Wallace(8)
10.14	Consulting Agreement dated as of January 1, 2008 between BioLargo, Inc. and Robert C. Szolomayer(8)
10.15	Engagement Agreement dated February 1, 2008 between BioLargo, Inc. and Charles K. Dargan, II (9)
10.16	Consulting Agreement dated as of November 6, 2008 between BioLargo, Inc. and Howard Isaacs (11)
10.17	Form of Warrant issued to Howard Isaacs (111)
10.18	Agreement dated as of August 19, 2008 by and among BioLargo, Inc., BioLargo Life Technologies, Inc., and Ioteq IP, Ltd. and Ioteq, Inc. (12)
10.19	Sublease Agreement dated as of November 13, 2008 (12)
10.20	Engagement Extension Agreement dated as of February 1, 2009 between BioLargo, Inc. and Charles K. Dargan, II. (13)

21.1*	List of Subsidiaries of the Registrant
24.1*	Power of Attorney (included on Signature Page)
31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13(a)-14 and 15(d)-14 under the Securities Exchange Act of 1934
31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13(a)-14 and 15(d)-14 under the Securities Exchange Act of 1934
32.1*	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

* Filed herewith.

Management contract or compensatory plan, contract or arrangement

(1) Incorporated herein by reference from the 10-KSB filed by the Company for the year ended December 31, 2002.

(2) Incorporated herein by reference from the Form 8-K filed by the Company on May 1, 2003.

(3) Incorporated herein by reference from the Form 10-KSB filed by the Company for the year ended December 31, 2003.

(4) Incorporated herein by reference from the Form 10-QSB filed by the Company for the three-month period ended March 31, 2005.

(5) Incorporated herein by reference from the Form 8-K filed by the Company on December 4, 2006.

(6) Incorporated herein by reference from the Form 10-KSB filed by the Company for the year ended December 31, 2007.

(7) Incorporated herein by reference from the Form 10-QSB for the three-month

period ended September 30, 2007.

(8) Incorporated herein by reference from the Form 8-K filed by the Company on January 16, 2008.

(9) Incorporated herein by reference from the Form 8-K filed by the Company on February 4, 2008.

(10) Incorporated herein by reference from the Form 10-KSB filed by the Company for the year ended December 31, 2007

(11) Incorporated herein by reference from the Form 8-K filed by the Company on November 12, 2008.

(12) Incorporated herein by reference from the Form 10-QSB for the three-month period ended September 30, 2007.

(13) Incorporated herein by reference from the Form 8-K filed by the Company on February 24, 2009.