SCM MICROSYSTEMS INC
Form DEF 14A
April 30, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to Section 240.14a-12

SCM MICROSYSTEMS, INC.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

SCM MICROSYSTEMS, INC.

d/b/a IDENTIVE GROUP

NOTICE OF

2010 ANNUAL MEETING OF STOCKHOLDERS

June 16, 2010

TO OUR STOCKHOLDERS:

You are cordially invited to attend the 2010 Annual Meeting of Stockholders of SCM Microsystems, Inc. d/b/a Identive Group (the Company), a Delaware corporation, to be held on June 16, 2010, at 10:00 a.m., local time, at the offices of Greenberg Traurig, LLP, One International Place, Boston, Massachusetts 02110, for the following purposes:

1. To elect one Class III director to serve until the expiration of the term of the Class III director or until his successor is duly elected and qualified or until he is removed or resigns;

2. To approve an amendment to the Company s Fourth Amended and Restated Certificate of Incorporation, as amended, to increase the number of authorized shares of Common Stock from 60,000,000 to 110,000,000 shares;

3. To approve an amendment to the Company s Fourth Amended and Restated Certificate of Incorporation, as amended, to change the name of the Company from SCM Microsystems, Inc. to Identive Group, Inc. ;

4. To approve the Company s 2010 Bonus and Incentive Plan;

5. To ratify the appointment of Deloitte & Touche GmbH as the Company s independent registered public accountants for the fiscal year ending December 31, 2010; and

6. To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

The foregoing items of business are more fully described in the proxy statement accompanying this notice.

The Board of Directors of the Company recommends that you vote FOR the approval of each of the proposals outlined above and as more fully described in the accompanying proxy statement.

Only stockholders of record at the close of business on May 14, 2010 (the Record Date) are entitled to notice of and to vote at the 2010 Annual Meeting of Stockholders and any adjournments thereof. A list of stockholders entitled to vote at the Annual Meeting will be available for inspection at the U.S. headquarters of the Company.

All stockholders are cordially invited and encouraged to attend the Annual Meeting. In any event, to ensure your representation at the Annual Meeting, please carefully read the accompanying Proxy Statement. Regardless of whether you plan to attend the Annual Meeting, please vote your shares as soon as possible so that your shares will be voted in accordance with your instructions. For specific voting instructions, please refer to the instructions on the proxy card that was mailed to you. If you attend the Annual Meeting and vote by ballot, your proxy will be revoked automatically and only your vote at the Annual Meeting will be counted.

By Order of the Board of Directors of

SCM Microsystems, Inc. d/b/a Identive Group

Melvin Denton-Thompson

Chief Financial Officer and Secretary

Ismaning, Germany

April 30, 2010

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON JUNE 16, 2010. The proxy materials relating to the Annual Meeting, including the proxy statement and proxy card, are available at no cost on our websites at www.scmmicro.com or www.identive-group.com.

ALL STOCKHOLDERS ARE CORDIALLY INVITED TO ATTEND THE ANNUAL MEETING IN PERSON. IN ANY EVENT, TO ENSURE YOUR REPRESENTATION AT THE ANNUAL MEETING, WE URGE YOU TO SUBMIT YOUR PROXY AS PROMPTLY AS POSSIBLE BY FOLLOWING THE INSTRUCTIONS INCLUDED WITH THE PROXY CARD THAT WAS MAILED TO YOU. THANK YOU FOR ACTING PROMPTLY. If you plan to attend to attend the Annual Meeting and need directions to the location of the meeting, please telephone (949) 553-4251.

SCM MICROSYSTEMS, INC.

d/b/a/ IDENTIVE GROUP

PROXY STATEMENT

FOR

2010 ANNUAL MEETING OF STOCKHOLDERS

June 16, 2010

INFORMATION CONCERNING SOLICITATION AND VOTING

General

The Board of Directors of the Company is furnishing this Proxy Statement to you in connection with the solicitation of proxies for use at our 2010 Annual Meeting of Stockholders to be held on June 16, 2010, at 10:00 a.m., local time, at the offices of Greenberg Traurig LLP, One International Place, Boston, Massachusetts 02110, or any adjournment(s) or postponement(s) thereof, for the purposes set forth herein and in the accompanying Notice of our 2010 Annual Meeting of Stockholders.

These proxy solicitation materials are first being mailed on or about May 19, 2010 to all our stockholders entitled to notice of and to vote at the Annual Meeting.

Record Date

Our Board of Directors has fixed the close of business on May 14, 2010 as the Record Date for the determination of our stockholders entitled to notice of, and to vote at, the Annual Meeting and any adjournment(s) or postponement(s) thereof.

Shares Outstanding

As of April 29, 2010 and the record date, we had issued and outstanding 43,034,782 shares of Common Stock, par value $0.001 per share. In the U.S., our Common Stock is listed on the NASDAQ Global Market (symbol: INVE) and on the regulated market (Prime Standard) of the Frankfurt Stock Exchange (symbol: INV).

Voting Rights

Each stockholder of record on the record date will be entitled to one vote per share of Common Stock held on the Record Date on all matters submitted for consideration of, and to be voted upon by, the stockholders at the Annual Meeting. The election of directors shall be determined by a plurality of the votes cast: each stockholder will be entitled to vote for one nominee to our Board of Directors, and the nominee with the greatest number of votes will be elected to the Board of Directors. No stockholder will be entitled to cumulative votes at the Annual Meeting for the election of any members of our Board of Directors. The proposals to increase the number of shares of Common Stock authorized and the proposal to change the name of the Company require the affirmative vote of the holders of a majority of the outstanding Common Stock. The proposal to approve our 2010 Bonus and Incentive Plan and the proposal to ratify the appointment of Deloitte & Touche GmbH as our independent registered public accountants for the fiscal year ending December 31, 2010 require a majority of the votes cast.

Voting Procedures

If your shares are registered directly in your name with our transfer agent, American Stock Transfer & Trust Company LLC, you are considered the stockholder of record with respect to those shares. As the stockholder of record, you have the right to vote in person at the meeting. If you choose to do so, you can bring your proxy

1

card or vote using the ballot provided at the meeting. However, even if you plan to attend the Annual Meeting, we recommend that you vote your shares in advance as described below so that your vote will be counted if you later decide not to attend the Annual Meeting.

If you hold your shares in street name through a stockbroker, bank or other nominee rather than directly in your own name, you are considered the beneficial owner of shares held in street name. Because a beneficial owner is not a stockholder of record, you may not vote these shares in person at the meeting unless you obtain a legal proxy from the broker, bank or nominee that holds your shares, giving you the right to vote those shares at the meeting. If you wish to attend the Annual Meeting and vote in person, you will need to contact your broker, bank or nominee to obtain a legal proxy.

If any stockholder is unable to attend the Annual Meeting, the stockholder may vote by proxy as follows:

- *Internet.* A stockholder can submit a proxy over the Internet by following the instructions provided in the Notice or on the separate proxy card.

- *Telephone.* A stockholder can submit a proxy over the telephone by following the instructions provided on the separate proxy card.

- *Mail.* A stockholder can submit a proxy by mail by completing, signing and returning the separate proxy card in the prepaid and addressed envelope included with the proxy materials.

You are urged to specify your choices on the proxy submitted by Internet, telephone or mail. If you are a stockholder of record and you submit a proxy, whether in person, by mail, by telephone or over the Internet, but do not specify how you want to vote on a proposal, in the absence of contrary instructions, the shares of Common Stock represented by such proxy will be voted FOR all proposals, and will be voted in the proxy holders discretion as to other matters that may properly come before the Annual Meeting. If you hold your shares through a broker, bank or other nominee and you do not provide instructions on how to vote, your broker or other nominee may have authority to vote your shares on your behalf on matters to be considered at the meeting.

Quorum; Abstentions; Broker Non-Votes

The required quorum for the transaction of business at the Annual Meeting is one-third (1/3) of the shares of our Common Stock issued and outstanding as of the Record Date. Shares voted FOR, AGAINST or WITHHELD from a matter voted upon by the stockholders at the Annual Meeting will be treated as being present at the Annual Meeting for purposes of establishing a quorum for the transaction of business, and will also be treated as shares represented and voting at the Annual Meeting with respect to any such matter.

Abstentions and broker non-votes are each included in determining the number of shares present and voting at the Annual Meeting for purposes of determining the presence or absence of a quorum, and each is tabulated separately. Abstentions with respect to any matter other than the election of directors (Proposal 1) will be treated as shares present or represented by proxy and entitled to vote on that matter and will thus have the same effect as negative votes. Under recent rule changes, the election of directors is no longer a routine matter as to which brokerage firms may vote in their discretion on behalf of clients who have not furnished voting instructions. Because the Company has a plurality voting standard, however, broker non-votes will not affect the outcome of the vote on this proposal.

If shares are not voted by the bank, broker or other financial institution which is the record holder of the shares and which does not receive voting instructions from the beneficial owners of those shares, or if shares are not voted in other circumstances in which proxy authority is defective or has been withheld with respect to any matter, these non-voted shares, or broker non-votes, are deemed not to be entitled to vote on the matter and accordingly are not counted for purposes of determining whether stockholder approval of that matter has been obtained with respect to Proposals 2, 3, and 4.

Vote Required

The election of directors at the Annual Meeting requires the affirmative vote of a plurality of the votes cast at the Annual Meeting.

The approval of amendments to the Certificate of Incorporation that would increase the number of shares of Common Stock authorized and change the name of the Company from SCM Microsystems, Inc. to Identive Group, Inc. requires the affirmative vote of a majority of the outstanding shares of Common Stock.

The approval of our 2010 Bonus and Incentive Plan and to ratify the appointment of Deloitte & Touche GmbH as our independent registered public accountants for the fiscal year ending December 31, 2010 requires the affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting.

All votes will be tabulated by the inspector of elections appointed for the Annual Meeting. The inspector of elections will separately tabulate affirmative and negative votes, abstentions and broker non-votes.

Solicitation of Proxies

The cost of soliciting proxies will be borne by us. We may reimburse brokerage firms, banks and other persons representing the beneficial owners of shares for their expenses in forwarding solicitation materials to such beneficial owners. Solicitation of proxies by mail may be supplemented by telephone, telegram, facsimile or personal solicitation by our directors, officers or regular employees without additional compensation.

Revocability of Proxies

Your proxy is revocable at any time before it is voted at the Annual Meeting either by delivering to us a written notice of revocation or a duly executed proxy bearing a later date, or by attending the Annual Meeting and voting in person. If you have executed and returned a proxy and are present in person at the Annual Meeting and wish to vote at the Annual Meeting, you may elect to do so by notifying the Inspector of Elections, thereby suspending the power of the proxy holders to vote the proxy previously delivered by you. Attendance at the Annual Meeting, however, will not by itself revoke a proxy previously delivered to us.

Annual Report and Other Matters

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was made available to stockholders with or preceding this proxy statement, contains financial and other information about our company, but is not incorporated into this proxy statement and is not to be considered a part of these proxy soliciting materials or subject to Regulations 14A or 14C or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended, or Exchange Act.

Through our websites, www.scmmicro.com or www.identive-group.com, we make available free of charge all of our SEC filings, including our proxy statements (including this Proxy Statement), our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q, and our Current Reports on Form 8-K, as well as Form 3, Form 4, and Form 5 Reports of our directors, officers, and principal stockholders, together with amendments to these reports filed or furnished pursuant to Section 13(a), 15(d), or 16 of the Exchange Act.

We will also provide, without charge to each stockholder of record as of the record date, copies of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, this Proxy Statement, and the related Proxy Card. Requests for copies may be made in writing directed to our executive offices at 1900 Carnegie Avenue, Building B, Santa Ana, California 92705, attn: Investor Relations, or by telephone at (949) 553-4251, or by e-mailing us at ir@scmmicro.com.

Stockholder Proposals for 2011 Annual Meeting of Stockholders

Pursuant to Rule 14a-8 under the Exchange Act, stockholder proposals for inclusion in our proxy materials for the 2011 Annual Meeting must be received at Identive Group, 1900 Carnegie Avenue, Building B, Santa Ana, California 92705, Attention: Secretary, by January 19, 2011, before we begin to print and send our proxy materials for the 2011 Annual Meeting.

In addition, our bylaws establish an advance notice procedure with regard to nominations for the election of directors and business proposals to be brought before an annual meeting of stockholders by any stockholder (other than matters included in our proxy materials in accordance with Rule 14a-8 under the Exchange Act). Such a proposal will be considered at the 2011 Annual Meeting if we receive notice of such proposal at Identive Group, Inc., 1900 Carnegie Avenue, Building B, Santa Ana, California 92705, Attention: Secretary, not later than the close of business on the tenth day following the day on which notice of the date of the 2011 Annual Meeting is mailed or public disclosure is made. A stockholder s notice to the Secretary must set forth as to each matter (other than with notices regarding nominations for the election of directors) the stockholder proposes to bring before the 2011 Annual Meeting: (i) a brief description of the business desired to be brought before the 2011 Annual Meeting, (ii) the name and address, as they appear on the Company s books, of the stockholder proposing such business, (iii) the class and number of shares of the Company which are beneficially owned by the stockholder, and (iv) any material interest of the stockholder in such business. For a description of the notice requirements regarding nominations for the election of directors, see the section entitled Policy for Director Recommendations and Nominations below.

PROPOSAL NO. 1

ELECTION OF CLASS III DIRECTOR

Our Board of Directors is divided into three director classes with staggered three-year terms. Currently there are seven directors and no vacancies on the Board of Directors. Three directors serve in Class I (whose terms expire at the 2011 Annual Meeting), three directors serve in Class II (whose terms expire at the 2012 Annual Meeting) and one director serves in Class III (whose term expires at the 2010 Annual Meeting).

The director elected at the Annual Meeting of Stockholders will serve for a term ending on the date of the third annual meeting after his election when his successor has been elected and duly qualified or upon the date of his earlier resignation or removal. Stockholders may not cumulate votes in the election of directors.

Set forth below is information about directors nominated for election at the Annual Meeting and each of the other incumbent directors:

Name	Age(1)	Position	Director Since
CLASS I DIRECTORS			
Steven Humphreys	49	Director	1996
Dr. Hans Liebler	41	Director	2008
Daniel S. Wenzel	32	Director	2010
CLASS II DIRECTORS			
Ayman S. Ashour	50	Chief Executive Officer and Chairman of the Board	2010
Lawrence Midland	68	Executive Vice President and Director	2009
Simon Turner	58	Director	2000
CLASS III DIRECTORS			
Felix Marx	43	Chief Operating Officer and Director	2007

(1) Ages shown are as of April 30, 2010

NOMINEES

The Nominating Committee of the Board of Directors has recommended, and the Board of Directors has proposed, that Felix Marx be elected as a Class III director at the Annual Meeting. Unless otherwise instructed, the proxy holders named in the enclosed proxy will vote the proxies received by them for Mr. Marx, who currently serves as a Class III director of the Company. In the event that Mr. Marx is unable or declines to serve as a director at the time of the Annual Meeting, the proxies received by the proxy holders named in the enclosed proxy will be voted for any nominee who is subsequently designated by the Board of Directors to fill the vacancy. We do not expect, however, Mr. Marx will decline to serve as a director at the Annual Meeting, as he has agreed to serve if elected.

BUSINESS EXPERIENCE OF DIRECTORS

Class III Directors Nominated for Election at the 2010 Meeting

Felix Marx has served as Chief Operating Officer since March 1, 2010 and has served as a director of the Company since October 2007. Mr. Marx joined the Company as Chief Executive Officer in October 2007. Previously, from 2003 to November 2007, Mr. Marx held a variety of management positions with NXP Semiconductors, a specialty semiconductor manufacturer for the smart card industry. Most recently, he served as General Manager of NXP s Near Field Communication business. Prior to this, Mr. Marx served as General Manager of NXP s Contactless & Embedded Security business. From 2002 to 2003, Mr. Marx was a business consultant with Team Training Austria. Prior to this, he worked for several years in the data and voice networking sector, where he held various sales, marketing, product management and business line management positions with companies including Global One Telecommunications and Ericsson. He holds a bachelor s degree in engineering from the Technical Academy in Vienna, a postgraduate degree in Business Administration of the University of Commerce in Vienna and a Master of Advanced Studies in Knowledge Management from Danube University in Austria. Mr. Marx brings to the Board significant experience with the technologies, market drivers and industry participants in the contactless reader market as a result of his years at NXP and as CEO of the Company.

Class I Directors Whose Terms Expire in 2011

Steven Humphreys has served as a director of the Company since July 1996 and as Chairman of the Board of Directors from April 2000 to March 2007, a position he also held from July 1996 to December 1996. Mr. Humphreys also has served as an executive officer of the Company, as President from July 1996 to December 1996 and as President and Chief Executive Officer from December 1996 to April 2000. Since October 2008, Mr. Humphreys has served as Chief Executive Officer and President of Kleer Corporation, a maker of wire audio technology. From October 2001 to October 2003, he served as Chairman of the Board and Chief Executive Officer of ActivCard Corporation (now called ActivIdentity), a provider of digital identity solutions, for which he has served as a director since March 2008. Previously, Mr. Humphreys was President of Caere Corporation, an optical character recognition software and systems company. Prior to Caere, he spent ten years with General Electric Company in a variety of positions. Since October 2003, Mr. Humphreys also has served as Chairman of Robotic Innovations International, Inc., an acquirer and developer of technologies for broad-based applications of robotics, service automation and automated companion devices. Currently, Mr. Humphreys also serves as a director of HeadThere, Inc., a communications robotics device company, and Ready Solar, Inc., a provider of standardized residential solar systems. He also is a director of several privately held companies and a limited partner and advisor to several venture capital firms. Additionally, Mr. Humphreys was elected to the school board of the Portola Valley Public School District in 2007, and has served on the board of Summit Preparatory Public Charter High School since 2003. Mr. Humphreys holds a B.S. degree from Yale University and M.S. and M.B.A. degrees from Stanford University. He brings his experience as an executive officer at several technology companies and his knowledge of the U.S. investment markets to the Board.

Dr. Hans Liebler has served as a director of the Company since June 2008. Since July 2006, Dr. Liebler has served as a partner of Lincoln Vale European Partners, an investment management company that he co-founded which is focused on strategic long-term investments in European small- and mid-cap companies, and which is currently the second largest stockholder of the Company. Currently, he also serves on the investment committee of Lincoln Vale. From September 2002 to July 2006, Dr. Liebler managed an investment fund he had conceived for Allianz AG, applying a private equity approach to European publicly listed companies. Previous to this, from September 1996 to September 2002, he worked as a management consultant for McKinsey & Company, initially in the company s Madrid and New York offices and subsequently as co-leader of McKinsey s German Corporate Finance practice. From 1993 to 1995, Dr. Liebler was an investment banker for S.G. Warburg in London. Since 1998, Dr. Liebler has also served as an adjunct professor at the European Business School in Germany. He holds a Master s degree in Business Administration from the University of Munich in Germany and a Ph.D in Finance from the University of St. Gallen in Switzerland. Mr. Liebler s experience as a professional investment manager provides the Board with financial expertise and an investor s perspective.

Daniel S. Wenzel. Daniel Wenzel has served as a director of the Company since January 2010. He was appointed to the Board of Directors following the completion of the Company s business combination with Bluehill ID. He is a founding partner of Bluehill ID and previously served on the board of directors of Bluehill ID since the company s founding in March 2007. Mr. Wenzel has served since September 2005 as a partner at Mountain Partners AG, a German-Swiss investment group that he co-founded in September 2005 and for which he is responsible for strategic direction and expansion. Mountain Partners AG currently is the largest single stockholder of the Company. Previously, Mr. Wenzel was Chief of Staff responsible for all strategy projects and merger and acquisition transactions and financing at ACG AG from 2001 to September 2005, during which time he successfully achieved the spin-off and the sale of the most important division of the technology group. Prior to this, he worked with Dresdner Bank Latin America in 1998, BNP Paribas in 1999 and Bain & Company in 2000. Currently Mr. Wenzel also serves on the board of several European investment firms, including Mountain Super Angel AG, BH Capital Management AG, Illimani Holding AG, Rosenberg Venture AG, Cleantech Invest AG, Taishan Invest AG, and in the last five years has also served on the board of Wildspitz Immobilien AG, Mountain Cleantech AG, Omnis Mundi AG, Taishan Capital Management AG and TCC Trans Clinic Consultants GmbH. Mr. Wenzel completed his studies at the WHU, Otto Beisheim Graduate School of Business Management, the Helsinki School of Economics, Finland and the Universidad Adolfo Ibañez, Chile, where he obtained a master s degree (Diplom- Kaufmann) in business administration. Because of his experience as an investment professional, Mr. Wenzel brings significant knowledge of the capital markets and technology trends to the Board.

Class II Directors Whose Terms Expire in 2012

Ayman S. Ashour. Ayman Ashour has served as Chief Executive Officer and Chairman of the Board of Directors since March 1, 2010. He joined the Company as Executive Chairman of the Board in January 2010 following the completion of the Company s business combination with Bluehill ID AG (Bluehill ID), a Swiss technology firm that he founded in March 2007 and for which he served as CEO and President of the Board of Directors, responsible for executing Bluehill ID s acquisition growth strategy, until the combination with the Company. Prior to this, from July 2000 to December 2009 Mr. Ashour was the founder and Principal of Newton International Management, a strategy consulting firm focused on the security and identification technology industry, where he provided strategy consulting to business clients. From February 2001 to October 2005, Mr. Ashour was a consultant and later COO and CEO of the Identification Technology business of ASSA ABLOY AB, where he was responsible for the worldwide development of one of the largest and most successful RFID companies, comprised of well known brands such as Sokymat, HID and Indala. From 1997 to 2000, he served as Divisional Managing Director, Williams Plc in the Asia Pacific region where he was responsible for Chubb Security, Kidde & Yale brands and managed the global operations of Guardforce International and the Chubb Physical Security Group. From 1990 to 1997, Mr. Ashour was with Williams Plc, where he served as Marketing Director of Kidde Group, Senior Vice President of Kidde-Fenwal, Inc. and as President of Kidde Fire Fighting, Inc. Mr. Ashour holds a bachelor s degree in Electronic and Electrical Engineering from the University of Manchester in the U.K. He serves on the Board of Directors of Advanced Digital Security Solutions Inc and BH Capital Management AG, which is the third largest stockholder of the Company. In addition, Mr. Ashour is currently a partner in the following private companies, each based in Newton, Massachusetts: Newton International Management, LLC., Trade-3, LLC. and tSecu LLC; as well as Verifier Security, based in Florida. He is currently an Adjunct Lecturer for the MBA program at the Sawyer Business School at Suffolk University in Boston. Mr. Ashour s brings to the Board his many years of experience in the RFID and secure ID industry and his intimate knowledge of the day to day operations of the Company.

Lawrence W. Midland has served as a director of the Company since May 2009. He was appointed to the Board of Directors and as an Executive Vice President of the Company and President of the Hirsch subsidiary following the completion of the merger of the Company and Hirsch. Previously, Mr. Midland was President of Hirsch Electronics Corporation, which he co-founded in August 1981, and for which he served as a director. Mr. Midland became President and Chairman of the Board of Hirsch in March 1986 and held those positions continuously until the completion of the merger. Mr. Midland previously served as president of several companies which were all sold profitably, including Retirement Inns of America, Pension Properties Trust, a California REIT, and Pension Administrative Services. Previously Mr. Midland also held various sales positions in investment related activities following his employment as a field engineer with Shell Oil Company. He holds a B.S. degree in Physics (With Distinction) from the University of Oklahoma and an M.B.A. degree from Pepperdine University. Mr. Midland brings an intimate understanding of the Hirsch business and the overall U.S. government market to the Board.

Simon Turner has served as a director of the Company since July 2000. Since his retirement from DSG international plc in December 2008, Mr. Turner has provided consultancy services to large retail companies, including PC manufacturer ACER Group. From January 2006 to December 2008, Mr. Turner served as Group Sourcing Director for consumer electronic retailer DSG international plc. From January 2002 to January 2006, Mr. Turner was Managing Director of the PC World Group of DSG, responsible for operations at PC World, PC World Business and Genesis Communications in the UK and PC City in Europe. From February 1999 to January 2002, Mr. Turner was Managing Director of PC World, a large UK reseller of PCs and PC-related equipment. From December 1996 to February 1999, Mr. Turner was Managing Director of Philips Consumer Electronics, UK and Ireland. Prior to that, he also served as Senior Vice President of Philips Media, Commercial Director of Belling and Company and Group Marketing Manager at Philips Consumer Electronics. Since October 2007, Mr. Turner also has served as a non-executive director of Yorkshire Building Society, the UK s third largest member-owned savings and loan institution, and since June 2009 he has served as a director of Net Retail B.V. Mr. Turner holds a B.S. degree from the University of Surrey. Mr. Turner s background in management with large technology retailers provides the Board with financial expertise and insight into the global retail sales environment.

To our knowledge, there are no family relationships between any of our directors and any other of our directors or executive officers.

Director Independence

Our Board of Directors has reviewed the independence of each of our directors and each director nominee and considered whether any director or nominee has had a material relationship with the Company or our management that could compromise his ability to exercise independent judgment in carrying out his duties and responsibilities. As a result of this review, our Board of Directors affirmatively determined that each non-employee director nominee and all of our non-employee directors are independent under the corporate governance standards of the Marketplace Rules of the NASDAQ Stock Market and Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the Exchange Act).

In connection with the determination of independence of Daniel S. Wenzel, the Board of Directors considered Mr. Wenzel s relationship with the Company s largest stockholder, Mountain Partners AG, of which Mr. Wenzel is a co-founder and partner. The Board of Directors determined that such relationship would not compromise Mr. Wenzel s ability to exercise independent judgment in carrying out his duties and responsibilities. In agreeing to serve as a member of our Board of Directors, Mr. Wenzel must act independently of Mountain Partners AG in discharging his fiduciary duties to stockholders of the Company and also is obligated not to disclose to Mountain Partners AG or use for his own benefit any confidential information that he may obtain during his service on the Board of Directors. Mr. Wenzel disclaims shared voting or dispositive power over any securities held by Mountain Partners AG.

In connection with the determination of independence of Dr. Hans Liebler, the Board of Directors considered Dr. Liebler s relationship with one of the Company s largest stockholders, Lincoln Vale European Partners, of which Dr. Liebler is a founder and member of the investment committee. The Board of Directors determined that such relationship would not compromise Dr. Liebler s ability to exercise independent judgment in carrying out his duties and responsibilities. In agreeing to serve as a member of our Board of Directors, Dr. Liebler must act independently of Lincoln Vale European Partners in discharging his fiduciary duties to stockholders of the Company and also is obligated not to disclose to Lincoln Vale European Partners or use for his own benefit any confidential information that he may obtain during his service on the Board of directors. Dr. Liebler disclaims shared voting or dispositive power over any securities held by the fund.

BOARD MEETINGS AND COMMITTEES

Board Leadership Structure

In accordance with the Company s Bylaws, the Board of Directors elects all officers of the Company, including our Chief Executive Officer and our Chairman, and each of these positions may be held by the same person or may be held by two persons. Currently, Ayman S. Ashour serves as the Company s Chairman and Chief Executive Officer of the Company. The Board of Directors believes that combining the Chairman and Chief Executive Officer roles fosters clear accountability, effective decision-making, and alignment on corporate strategy and provides an effective leadership model for the Company. In light of the active involvement by all independent directors, the Board of Directors has not specified a lead independent director at this time. The Board of Directors believes that the current structure of the Board of Directors is appropriate to effectively manage the affairs of the Company and the best interests of the Company s stockholders.

The Board of Directors Role in Risk Oversight

The Board has an active role, as a whole and also at the committee level, in overseeing management of the Company s risks. The Board regularly reviews information regarding the Company s credit, liquidity and operations, as well as the risks associated with each. The Company s Compensation Committee is responsible for overseeing the management of risks relating to the Company s executive compensation plans and arrangements. The Audit Committee oversees management of financial risks. The Nominating Committee manages risks associated with the independence of the Board of Directors and potential conflicts of interest. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire Board of Directors is regularly informed through committee reports about such risks.

Board Meeting Attendance

Our Board of Directors held ten meetings in 2009, of which nine were physical meetings and one was a telephonic meeting. During 2009, we had four standing committees: an Audit Committee, a Compensation Committee, a Nominating Committee and a Strategic Advisory Committee. Each current committee, with the exception of the Strategic Advisory Committee, has a written charter which is available on the Corporate Governance page within the Investor Relations section of our website at www.scmmicro.com and www.identive-group.com. The Strategic Advisory Committee has not yet met and has not yet adopted a charter. The Board of Directors may choose to amend its committee charters from time to time. All members of our Board committees are appointed by the Board of Directors and are non-employee directors. From time to time the Board of Directors may choose to create additional committees. Each of our directors attended at least 75% of the meetings of the Board of Directors and applicable committee meetings during 2009, except for Mr. Turner, who attended 65% of the Board of Directors and applicable committee meetings.

During each physical Board of Directors meeting and additionally as needed, our independent directors meet without Company management present to address any issues they determine to be appropriate.

Communications with the Board of Directors

Although we do not have a formal policy regarding communications between our stockholders and our Board of Directors, stockholders may communicate with the Board of Directors by sending an email to ir@scmmicro.com or by writing to the Board of Directors at: Identive Group, Inc., 1900 Carnegie Avenue, Building B, Santa Ana, California 92705, Attention: Investor Relations. The Investor Relations staff will forward such communication to the Board of Directors or to any individual director or directors to whom the communication is directed as applicable, if the communication is relevant to the Company s business and financial operations, policies or corporate philosophy. If the communication is unduly hostile, threatening, illegal or similarly inappropriate, or advertisements, solicitations for periodicals or other subscriptions, and other similar communications are received, the Investor Relations staff has the authority to discard the communication or take appropriate legal action regarding the communication.

Director Attendance at Stockholder Meetings

We do not have a policy regarding director attendance at stockholder meetings. One director attended the 2009 Annual Meeting of Stockholders.

Committees of the Board of Directors

The Board of Directors currently has Audit, Compensation and Nominating Committees. All members of these committees are appointed by the Board of Directors and are non-employee directors. In June 2009, the Board of Directors also formed a Strategic Advisory Committee to oversee the strategic plan of the Company, however this committee has never met. From time to time the Board of Directors may choose to create additional committees.

The following table sets forth the current composition of our standing Board committees:

Name of Director	Audit Committee	Compensation Committee	Nominating Committee
Steven Humphreys	Member	Member	
Dr. Hans Liebler		Chair	
Simon Turner	Chair		Member
Daniel Wenzel	Member	Member	Chair

Audit Committee. The Audit Committee of our Board of Directors, established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the Exchange Act), assists our Board of Directors in fulfilling its responsibility for oversight of the quality and integrity of our financial reporting processes, system of internal control, process for monitoring compliance with laws and regulations, audit process and standards of business conduct. The Internal Audit and Sarbanes-Oxley Compliance personnel of the Company report directly to the Audit Committee. Currently, the Audit Committee consists of Messrs. Humphreys, Turner and Wenzel. Mr. Turner has served as Chairman of the Audit Committee since April 2004.

Our Board of Directors has determined that each member of the Audit Committee is an independent director within the standards of the Marketplace Rules of the NASDAQ Stock Market and the requirements set forth in Rule 10A-3(b)(1) under the Exchange Act. Our Board of Directors has further determined that at least two members of the Audit Committee, Steven Humphreys and Simon Turner, are financial experts as defined by Item 407(d)(5) of Regulation S-K in the Exchange Act. The Audit Committee held four physical meetings and three telephonic meetings during 2009.

In discharging its duties, our Audit Committee, among its other duties:

- Recommends to the Board of Directors the selection of the independent auditors and their compensation, evaluates the independent auditors and, where appropriate, recommends the replacement of the independent auditors;

- Meets with management and the independent auditors to review and discuss the annual financial statements and the report of the independent auditors thereon and, to the extent the independent auditors or management brings any such matters to the attention of the Audit Committee, to discuss significant issues encountered in the course of the audit work, if any, such as restrictions on the scope of activities or access to required information;

- Meets quarterly with management and the independent auditors to review and discuss the quarterly financial statements;

- Meets at least quarterly with the Auditors in order to ensure sufficient independence is maintained from management and to provide the opportunity for the auditors to brief the members of the Audit Committee in confidence;

Reviews significant changes to our accounting principles and practices proposed by the independent auditors or management;

Meets with management and the independent auditors to review and discuss reports on the adequacy and effectiveness of our internal controls;

Meets annually with management to review the risk assessment of the Company prepared by Management; and

Reviews all related party transactions and approved interested parties in such transactions.

See Report of the Audit Committee of the Board of Directors below for more information.

Compensation Committee. The Compensation Committee has responsibility for and authority to (i) review and approve corporate goals and objectives relevant to chief executive officer compensation, evaluate the chief executive officer s performance in light of those goals and objectives, and set the chief executive officer s compensation level based on this evaluation; (ii) develop, review and approve compensation policies and practices applicable to the Company s officers who are deemed to be executive officers of the Company for SEC reporting purposes, including the criteria upon which executive compensation is based, the specific relationship of corporate performance to executive compensation and the composition of benefits; (iii) make recommendations to the Board of Directors with respect to the Company s incentive compensation and equity-based compensation plans; (iv) review the compensation and benefits offered to non-employee directors and recommend changes to the Board of Directors as appropriate; and (v) administer and evaluate the Company s incentive, equity-based and other executive compensation programs, including approving guidelines, making grants and awards and establishing annual award levels for employee stock options, units, restricted shares and other incentive and equity-based awards under such programs, interpreting and promulgating rules relating to the plans, modifying or canceling grants or awards, designating eligible participants and imposing limitations and conditions on grants or awards.

The Compensation Committee is authorized to delegate any portion of its authority to subcommittees. Currently, the Compensation Committee consists of Messrs. Humphreys, Liebler and Wenzel, and Mr. Liebler serves as Chairman. The Board of Directors has determined that each member of the Compensation Committee is independent within the meaning of the SEC and NASDAQ Stock Market, Inc. director independence standards. The Compensation Committee held four physical meetings during 2009.

Nominating Committee. The Nominating Committee assists in identifying individuals qualified to become members of the Board of Directors. Currently, the Nominating Committee consists of Messrs. Turner and Wenzel, with Mr. Wenzel serving as the committee s Chairman. The Board of Directors has determined that each of the members of the Nominating Committee is independent within the meaning of the NASDAQ Stock Market, Inc. director independence standards. The Nominating Committee held two physical meetings during fiscal 2009.

Other Corporate Governance Resources

The Company s Corporate Governance Guidelines, the Company s Code of Business Conduct and Ethics and committee charters are available on the Corporate Governance page within the Investor Relations section of our website at www.scmmicro.com and www.identive-group.com.

POLICY FOR DIRECTOR RECOMMENDATIONS AND NOMINATIONS

The primary role of the Nominating Committee is to develop and recommend to the Board of Directors criteria for identifying and evaluating director candidates and to establish a procedure for consideration of director candidates recommended by our stockholders. The Nominating Committee periodically assesses the appropriate size of the Board of Directors and whether any vacancies are expected due to retirement or otherwise. In the event that vacancies are anticipated, the Nominating Committee seeks to identify and evaluate potential candidates at meetings of the Nominating Committee, which can take place at any point during the year.

Candidates may come to the attention of the Board of Directors through current Board members, professional search firms, stockholders or other parties. All candidates are evaluated based on a review of the individual s qualifications, skills, independence and expertise. The Nominating Committee will consider candidates submitted by stockholders as nominees for election as Directors of the Company. Stockholders wishing to have the Nominating Committee consider a candidate should submit the name(s) and supporting information to Corporate Secretary, Identive Group, Inc., 1900 Carnegie Avenue, Building B, Santa Ana, California 92705 and should include the following information: (a) the name(s) and address(es) of the stockholder(s) making the recommendation and of the persons to be nominated; (b) a representation that the stockholder is a holder of record of stock of the Company entitled to vote for the election of Directors on the date of such notice and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) such other information regarding each nominee proposed by such stockholder as would be required to be included in the proxy statement filed pursuant to the proxy rules of the SEC, had the nominee been nominated, or intended to be nominated, by the Board of Directors; (e) the consent of each nominee to serve as a director of the Company if so elected; and (f) appropriate biographical information and a statement as to the qualifications of the candidate. Written notice of a nomination must be received by us within the timeframe described under Stockholder Proposals for 2011 Annual Meeting of Stockholders above.

As part of its selection process, the Nominating Committee may consider recommendations of director candidates with diverse backgrounds and experience who are expected to enhance the quality of the Board of Directors, serve stockholders long-term interests and contribute to our overall corporate goals. Pursuant to our Corporate Governance Guidelines, we endeavor to have a Board of Directors representing diverse experience at policy-making levels in various areas that are relevant to our global activities. While the Nominating Committee has not established specific minimum criteria for candidates, the philosophy of the committee is that directors should possess the highest personal and professional ethics, integrity and values, informed judgment, and sound business experience and be committed to representing the long-term interests of our stockholders. Candidates must also have an inquisitive and objective perspective, the ability to make independent analytical inquiries, practical wisdom and mature judgment. In evaluating candidates, the Nominating Committee may consider a candidate s work experience related to our business, general professional experience and overall expected contributions to the Board of Directors in relation to other directors already serving on the Board of Directors. When evaluating existing directors for nomination for re-election, the Nominating Committee may also consider the directors past Board of Directors and committee meeting attendance and participation.

The Nominating Committee evaluates shareholder-recommended candidates using the same process and the same criteria it uses to evaluate candidates from other sources.

The Nominating Committee has the authority to retain outside counsel, experts, and other advisors as it determines appropriate to assist it in the full performance of its functions, including sole authority to retain and terminate any search firm used to identify director candidates, and to approve the search firm s fees and other retention terms.

CORPORATE GOVERNANCE

The Company and our Board of Directors regularly review and evaluate the Company s corporate governance practices. The Company s corporate governance documents are posted on the investor relations page of our website at www.scmmicro.com and www.identive-group.com.

Corporate Governance Guidelines

The Board of Directors has adopted Corporate Governance Guidelines that include, without limitation, guidelines relating to board composition, director qualifications and selection process, director independence, board committees and auditor independence. The Corporate Governance Guidelines are available on the Corporate Governance page within the Investor Relations section of our website at www.scmmicro.com and www.identive-group.com. The Nominating Committee and the Board of Directors review the Corporate Governance Guidelines annually and the Board of Directors may amend the Corporate Governance Guidelines at any time.

Code of Conduct and Ethics

The Board of Directors has adopted a Code of Conduct and Ethics for all of our employees, including our Chief Executive Officer, Chief Financial Officer and any other principal accounting officer, and for the members of our Board of Directors. Our Code of Conduct and Ethics is posted on the Corporate Governance page within the Investor Relations section of our website, at www.scmmicro.com and www.identive-group.com. The Board of Directors may amend the Code of Conduct and Ethics at any time and has the sole authority to approve any waiver of the Code of Conduct and Ethics relating to the activities of any of our senior financial officers, other executive officers and directors.

COMPENSATION OF DIRECTORS

Annual Cash Compensation

During 2009, the Company s non-employee directors were paid in the currency of the country of their residence, using a fixed exchange rate of 0.93 per U.S. dollar for our German-based directors and £0.63 per U.S. dollar for our UK-based director. During 2009, each non-employee member of our Board of Directors was eligible to receive the following cash compensation:

- an annual retainer of $20,000 for each member of the Board of Directors, except for the Chairman, who is eligible to receive an annual retainer of $40,000;
- an additional annual retainer of $5,000 for service on the Audit Committee of the Board of Directors, except for the Chairman, who is eligible to receive an annual retainer of $10,000;
- an additional annual retainer of $2,000 for service on the Compensation, Nominating or Strategic Advisory Committees of the Board of Directors, except for the Chairman of such committees, who are each eligible to receive an annual retainer of $4,000; and
- meeting fees of $1,000 for physical attendance at each Board of Directors meeting and $500 for attendance at telephonic board meetings lasting more than 60 minutes.

Additionally, we reimburse our non-employee directors for all reasonable out-of pocket expenses incurred in the performance of their duties as directors, which in practice primarily consist of travel expenses associated with Board of Directors or committee meetings or with committee assignments.

Equity Compensation

During 2009, each of our non-employee directors was eligible to receive option awards under the terms of the Company s 2007 Stock Option Plan. Under this plan, new members of the Board of Directors receive an initial option grant to purchase 10,000 shares of the Company s Common Stock. Continuing members of the Board of Directors who have served for at least six months receive an annual option grant to purchase 5,000 shares of the Company s Common Stock, awarded on the date of our Annual Meeting of Stockholders. Both of these option grants vest 1/12th per month over the one-year period following the date of grant.

During 2009, each of our non-employee directors received an annual grant of 5,000 options for shares of the Company s Common Stock. All such annual grants were made on October 29, 2009, the date of our 2009 Annual Meeting, at an exercise price of $2.73 per share, which was the NASDAQ closing price on that day. Mr. Morgan received an initial option grant to purchase 10,000 shares of the Company s Common Stock upon joining the Board of Directors. His grant was made on April 30, 2009 at an exercise price of $2.37, which was the NASDAQ closing price on that day.

Director Compensation Changes in 2010

To support the cost reduction efforts of the Company, in February 2010, Mr. Wenzel agreed not to accept any compensation for his service on the Board of Directors during 2010. Additionally, Mr. Humphreys and Dr. Liebler agreed not to accept any compensation for their service on the Board of Directors during 2010, beginning April 1, 2010.

Director Compensation for Fiscal 2009

The following Director Compensation Table sets forth summary information concerning the compensation paid to our non-employee directors in fiscal 2009 for services to the Company.

Name	Fees Earned or Paid in Cash	Option Awards (1)	Total ($)
Werner Koepf Chairman (2)	$ 54,000	$ 8,202	$ 62,202
Steven Humphreys (3)	$ 34,500	$ 8,202	$ 42,702
Dr. Hagen Hultzsch (4)	$ 12,167		$ 12,167
Dr. Hans Liebler (5)	$ 33,333	$ 8,202	$ 41,535
Douglas Morgan (6)	$ 22,917	$ 13,367	$ 36,284
Simon Turner (7)	$ 40,500	$ 8,202	$ 48,702

(1) The amounts in this column represent the aggregate grant date fair value of awards calculated in accordance with financial accounting standards with respect to the fiscal year in accordance with ASC Topic 718, *Compensation-Stock Compensation*. The grant date fair value of the options awards is calculated using the Black-Scholes-Merton valuation model using the following assumptions: a dividend rate of zero, an interest rate for the expected life of the option at the date of grant, an expected option life of 4.00 years, and volatility based on historical averages at the date of grant. See Note 4 to the Consolidated Financial Statements for the period ended December 31, 2009 for more information about how the Company accounts for stock-based compensation.

(2) Mr. Koepf received a fee of $40,000 for his service as Chairman of the Board of Directors in 2009. He also received a fee of $2,000 for his service as a member of the Compensation Committee, a fee of $4,000 for his service as Chairman of the Nominating Committee and a prorated fee of $1,000 for his service as a member of the Strategy Committee during 2009. Additionally, he received a fee of $1,000 for each physical Board meeting and $500 for each telephonic Board meeting attended, amounting to $7,000. Mr. Koepf had 30,000 options outstanding as of December 31, 2009, of which 25,833 were exercisable. Mr. Koepf resigned from the Board of Directors and all Board committees effective December 29, 2009.

(3) Mr. Humphreys received a fee of $20,000 for his service as a director in 2009. He also received a fee of $5,000 for his service as a member of the Audit Committee, a fee of $2,000 for his service as a member of the Nominating Committee and a prorated fee of $2,000 for his service as Chairman of the Strategy Committee during 2009. Additionally, he received a fee of $1,000 for each physical Board meeting and $500 for each telephonic Board meeting attended, amounting to $5,500. Mr. Humphreys had 61,415 options outstanding as of December 31, 2009, of which 57,248 were exercisable.

(4) Dr. Hultzsch resigned from the Board of Directors effective April 30, 2009. He received a prorated fee of $6,667 for his service as a director in 2009. He also received a prorated fee of $1,700 for his service as a member of the Audit Committee and a prorated fee of $1,300 for his service as Chairman of the Compensation Committee during 2009. Additionally, he received a fee of $1,000 for each physical Board meeting and $500 for each telephonic Board meeting attended, amounting to $2,500. Dr. Hultzsch had no options outstanding as of December 31, 2009.

(5) Dr. Liebler received a fee of $20,000 for his service as a director in 2009. He also received a fee of $3,333 for his service as a member of the Compensation Committee during 2009 and as Chairman of the Compensation Committee from April 30, 2009; $2,000 for his service as a member of the Nominating Committee and a prorated fee of $1,000 for his service as a member of the Strategy Committee during 2009. Additionally, he received a fee of $1,000 for each physical Board meeting and $500 for each telephonic Board meeting attended, amounting to $7,000. Dr. Liebler had 15,000 options outstanding as of December 31, 2009, of which 10,833 were exercisable.

(6) Mr. Morgan joined the Board effective April 30, 2009, was appointed to the Audit and Compensation Committees effective June 2, 2009 and the Strategy Committee at its inception on July 1, 2009. He received a prorated fee of $13,333 for his service as a director in 2009. He also received a prorated fee of $2,918 for his service as a member of the Audit Committee, a prorated fee of $1,167 for his service as a member of the Compensation Committee and a prorated fee of $1,000 for his service as a member of the Strategy

Committee during 2009. Additionally, he received a fee of $1,000 for each physical Board meeting and $500 for each telephonic Board meeting attended, amounting to $4,500. Mr. Morgan had 10,000 options outstanding as of December 31, 2009, of which 6,666 were exercisable.

(7) Mr. Turner received a fee of $20,000 for his service as a director in 2009. He also received $10,000 for his service as Chairman of the Audit Committee, $2,000 for his service as a member of the Compensation Committee, $2,000 for his service as a member of the Nominating Committee and a prorated fee of $1,000 for his service as a member of the Strategy Committee during 2009. Additionally, he received a fee of $1,000 for each physical Board meeting and $500 for each telephonic Board meeting attended, amounting to $5,500. Mr. Turner had 55,000 options outstanding as of December 31, 2009, of which 50,833 were exercisable.

Vote Required

At the Annual Meeting, the nominee receiving the highest number of affirmative votes of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote on the election of directors will be elected to our Board of Directors. Abstentions and votes withheld from or against any director will be counted for purposes of determining the presence or absence of a quorum, but have no other legal effect under Delaware law in the election of directors. Stockholders may not cumulate votes in the election of directors.

Recommendation of the Board of Directors

The Board of Directors recommends a vote FOR the election of the Class III nominee listed above.

PROPOSAL NO. 2

APPROVAL OF AMENDMENT TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK

We are asking you to approve an amendment to the Company s Fourth Amended and Restated Certificate of Incorporation, as amended (the Certificate of Incorporation) to increase the number of shares of Common Stock authorized for issuance. The proposed amendment was adopted, subject to stockholder approval, by the Board of Directors on April 19, 2010. The Certificate of Incorporation currently authorizes up to 60,000,000 shares of Common Stock for issuance, of which 43,034,782 have been issued and are outstanding.

In addition, an aggregate of 15,895,618 shares have been reserved for issuance as follows: (i) 5,536,558 shares under our existing incentive programs, (ii) 4,890,807 under outstanding warrants, (iii) 4,115,690 shares under agreements and option plans assumed in the acquisition of Bluehill ID AG, and (iv) 1,352,563 shares to be issued to remaining Bluehill ID AG stockholders. Therefore, only 1,069,600 shares remain available for future issuances.

The proposed amendment to our Certificate of Incorporation would increase the number of shares of Common Stock authorized for issuance by 50,000,000 shares, to 110,000,000 shares. The number of shares of Preferred Stock authorized for issuance under our Certification of Incorporation would remain unchanged at 10,000,000 shares.

We expect to use our authorized and unissued Common Stock to permit our Board of Directors to issue shares of Common Stock to raise capital, for strategic investment purposes, as payment consideration for merger and acquisition activities, to grant incentive stock awards to our employees, officers and directors and for other general corporate purposes. The Company has adopted a strategy for growth that includes the evaluation and pursuit of strategic opportunities, financings, investments and merger and acquisition activ Spring 2007 Offering) due and payable June 30, 2009 to eleven investors. (See Note 3 for details on the Fall 2006 and Spring 2007 offerings.)

As of September 30, 2007, the Company had $1,461,126 aggregate principal amount of its promissory notes that mature at various times during 2007, 2008 and 2009. This amount consists of (i) convertible notes totaling $1,431,000 (see Note 3); and (ii) a promissory note totaling $30,126 due to a former professional for legal services (see Note 9). The Company currently intends to require the conversion of the $1,431,000 aggregate principal amount of convertible notes and any accrued and unpaid interest upon maturity, in which case the Company will not require cash to repay such notes.

On March 15, 2007, the Company s stockholders approved, and effective as of the close of business on March 21, 2007, the Company completed a 1-for-25 reverse split of its common stock (the Reverse Split). Additionally, on March 15, 2007, the Company s stockholders approved and the Company has filed, an amendment to the Company s certificate of

5

incorporation increasing the Company s authorized capital stock to 200,000,000 shares of common stock and 50,000,000 shares of preferred stock. Unless specifically stated otherwise, all references in the financial statements to the Company s common stock are stated on a post-Reverse Split basis.

Organization

On March 15, 2007 the Company s stockholders approved, and the Company has completed, a corporate name change, changing its name from NuWay Medical, Inc. to BioLargo, Inc. The amendment to the certificate of incorporation reflecting the name change was filed on March 16, 2007 with the Secretary of State of the State of Delaware. In connection with this name change, on March 21, 2007 the Company s common stock began trading under a new symbol, BLGO , on the Pink Sheets.

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.

Transactions Involving IOWC Technologies, Inc.

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

Letter of Intent

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

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

Marketing and Licensing Agreement

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

Pursuant to the M&L Agreement, the Company s newly formed subsidiary, BioLargo Life Technologies, Inc. (BLTI), acquired certain rights to develop, market, sell and distribute products that were developed, and were then in development, by IOWC relating to the BioLargo technology.

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

Pursuant to the terms of the M&L Agreement, the Company is entitled to receive any and all royalties, payments, license fees, and other consideration generated by the Assigned Agreements as of January 1, 2006. As part of the assignment, IOWC agreed to transfer the 20% interest it acquired in BioLargo, LLC pursuant to the Sundheimer Agreement. In October 2006, the Company terminated the Sundheimer Agreement, for cause. See also Note 11. Subsequently, the Company and IOWC agreed that IOWC s 20% interest in BioLargo, LLC would not be transferred by IOWC to BLTI, but that BLTI would have the option to acquire such 20% interest for nominal consideration for seven years (the Option Agreement).

Consulting Agreement

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

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

Research and Development Agreement

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

Table of Contents

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

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

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

In connection with the completion of the acquisition of the BioLargo technology in April 2007, the M&L Agreement, Consulting Agreement, and R&D Agreement were terminated. No cash payments were made to IOWC in connection with this R&D Agreement.

Acquisition of the BioLargo Technology

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

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

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

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

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

certain records,

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

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;

Table of Contents

- 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 that 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 completion of the acquisition of the BioLargo technology, the Company entered into an employment agreement dated 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 heath insurance premium payments for himself and his immediate family, a car allowance of $800 per month, paid vacation of four weeks per year plus an additional two weeks per year for each full year of service during the term of the agreement up to a maximum of ten weeks per year, life insurance equal to three times his base salary and disability insurance. The Code Employment Agreement has a term of five years, unless earlier terminated in accordance with its terms.

Table of Contents

The Code Employment Agreement also provides that Mr. Code s employment may be terminated by the Company due to disability, for cause or without cause. Disability as used in the Employment Agreement means physical or mental incapacity or illness rendering Mr. Code unable to perform his duties on a long-term basis (i) as evidenced by his failure or inability to perform his duties for a total of 120 days in any 360 day period, or (ii) as determined by an independent and licensed physician whom Company selects, or (iii) as determined without recourse by the Company s disability insurance carrier.

If Mr. Code s employment is terminated for cause he will be eligible to receive his accrued base compensation and vacation compensation through the date of termination. If Mr. Code s employment is terminated without cause, then he will be eligible to receive the greater of (i) one year s compensation plus an additional one half year for each year of service since the effective date of the employment agreement or (ii) one year s compensation plus an additional one half year for each year remaining in the term of the agreement.

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

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

Calvert Employment Agreement

In connection with the acquisition of the BioLargo technology, the Company also entered into a new employment agreement dated April 30, 2007 with Dennis Calvert, the Company s President and Chief Executive Officer (the Calvert Employment Agreement). The previous employment agreement with Mr. Calvert, dated December 11, 2002, was terminated.

The Calvert Employment Agreement provides that Mr. Calvert will serve as the President and Chief Executive 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 may determine from time to time. In addition, Mr. Calvert 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. Calvert is also eligible to receive heath insurance premium payments for himself and his immediate family, a car allowance of $800 per month, paid vacation of four weeks per year plus an additional two weeks per year for each full year of service during the term of the agreement up to a maximum of ten weeks per year, life insurance equal to three times his base salary and disability insurance.

The Calvert Employment Agreement provides that Mr. Calvert will be granted an option (the Option) to purchase 7,733,259 shares of the Company s common stock. The Option shall be a non-qualified stock option, shall be exercisable at $0.18 per share, shall be exercisable for ten years from the date of grant and shall vest over time as follows:

First anniversary of the date of this Agreement	2,577,753
Second anniversary of the date of this Agreement	2,577,753
Third anniversary of the date of this Agreement	2,577,753

Notwithstanding the foregoing, any portion of the Option which has not yet vested shall be immediately vested in the event of, and prior to, a change of control, as defined in the Calvert Employment Agreement. Consistent with the foregoing, the precise terms and conditions of the agreement evidencing the Option to be entered into between the Company and Mr. Calvert shall be as determined by the Board of Directors and/or the Compensation Committee.

The Calvert Employment Agreement has a term of five years, unless earlier terminated in accordance with its terms. The Calvert Employment Agreement provides that Mr. Calvert s employment may be terminated by the Company due to disability, for cause or without cause. Disability as used in the Calvert Employment Agreement means physical or mental incapacity or illness rendering Mr. Calvert 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. Calvert 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. Calvert 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.

Table of Contents

The Calvert Employment Agreement requires Mr. Calvert 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 Calvert Employment Agreement as work made for hire .

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, the Company issued 22,139,012 shares of its common stock, as adjusted for the Reverse Split, to IOWC (the IOWC Shares). IOWC is controlled by Mr. Code. The IOWC Shares, together with 620,637 shares of common stock, as adjusted for the Reverse Split, previously issued to Mr. Code under the Consulting Agreement, constitute approximately 57.8% of the Company s 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 as a director of the Company. Additionally, the Code Employment Agreement provides that during the term of the Code Employment Agreement the Company shall cause to have Mr. Code nominated for election as a director to serve on the Board of Directors Mr. Code also serves as the Company s Chief Technology Officer, which is an executive officer position.

Mr. Code is the founder and principal stockholder of IOWC, a company which is engaged in the research and development of advanced disinfection technology and substantially all of whose assets the Company purchased in April 2007. From December 2000 to the present, Mr. Code has been President of IOWC. From December 2000 through October 2003, Mr. Code also served as a director and Vice Chairman of BioLargo Technologies Inc., where he was engaged in pre-commercial efforts to seat inorganic disinfection technologies into the non-woven air-laid industry. Mr. Code has authored several publications concerning, and has filed several patent applications applying, disinfection technology. Mr. Code graduated from the University of Calgary, Alberta, Canada.

The Board of the Directors of the Company has determined that Mr. Code is not independent as defined under NASDAQ Marketplace rules. Mr. Code does not serve on any committees of the Board.

Note 3. Sale of Unregistered Securities

The Company has raised money pursuant to several private offerings of its securities, the details of which are provided below.

Spring 2007 Offering

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

The Spring 2007 Notes are convertible into shares of the Company s common stock at an initial conversion price of $0.70 per share. The Spring 2007 Notes can be converted voluntarily by the noteholders at any time. The Spring 2007 Notes can be converted mandatorily by the Company (i) on or after September 30, 2007, if the Company has received one or more written firm commitments, or has 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, under such circumstances, the Spring 2007 Notes may be repaid in cash or may be converted, at the sole option of the Company, into shares of the Company s common stock, on the maturity date.

From the inception of the Spring 2007 Offering in May 2007, through September 30, 2007, the Company received gross and net proceeds of $431,000 from 11 investors and issued Spring 2007 Notes, the principal amount of which allow for conversion into an aggregate 615,718 shares of the Company s common stock, and Spring 2007 Warrants exercisable into an aggregate 615,718 shares of the Company s common stock.

Table of Contents

The Spring 2007 Notes have not been converted and remain outstanding, and they are recorded on the balance sheet as Long-Term Liabilities.

Fall 2006 Offering

In September 2006, the Company commenced a private offering that terminated in April 2007 (the Fall 2006 Offering). The Company sold an aggregate $1,000,000 principal amount of its 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 the Company s common stock. Of this amount, the Company sold an aggregate $484,000 principal amount of Fall 2006 Notes as of December 31, 2006, and the $516,000 balance subsequent to December 31, 2006. Each Fall 2006 Offering Note bears interest at a rate of 10% per annum, such interest to be paid, at the Company s option, in cash or stock at an initial conversion rate of $0.6875 per share. Purchasers of the Fall 2006 Notes received, for no additional consideration, a stock purchase warrant (the Fall 2006 Warrant) entitling the holder to purchase a number of shares of the Company s common stock into which the principal amount of the investor s Fall 2006 Note is convertible. The Fall 2006 Warrant is exercisable at an initial price of $1.25 per share, and will expire on September 13, 2009.

The Fall 2006 Notes may be subordinated in an amount up to $5 million of additional debt financing that the Company may incur prior to the maturity date. The Fall 2006 Notes are convertible into shares of the Company s 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. The Fall 2006 Notes can be converted mandatorily by the Company (i) on or after September 13, 2007, if the Company has received one or more written firm commitments, or has 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, under such circumstances, the Fall 2006 Notes may be repaid in cash or may be converted, at the sole option of the Company, into shares of the Company s common stock, on the maturity date.

The Fall 2006 Notes have not been converted and remain outstanding, and are recorded on the balance sheet as convertible notes payable as current liabilities.

2005 First Offering

In January 2005, pursuant to a private offering that commenced in October 2004 and terminated in January 2005 (the First Offering), the Company received gross and net proceeds of $25,000 from an outside investor and issued its convertible promissory note (the First Offering Note) due and payable one year from the date of issuance. The First Offering Note bears interest at a rate of 10% per annum, payable on the maturity date. The First Offering Note can be converted, in whole or in part, into shares of the Company s Series A Preferred stock, at an exercise price of $0.10 per share, as adjusted to reflect the Reverse Split, at any time prior to maturity by either the Company or the lender. Each share of Series A Preferred Stock may be converted by the holder into one share of the Company s common stock. If the noteholder converts the First Offering Note into Series A Preferred Stock, on or after the note s original maturity date the noteholder may require the Company to buy back the shares of Series A Preferred Stock for 110% of the principal amount of the note (the Buy Back Provision). If the Company is unable to do so, the Company s president, Dennis Calvert, has agreed to buy back the shares on the same terms. If shares of Series A Preferred Stock are converted into common stock, the holder has the right to include (piggyback) the shares of common stock in a registration of securities filed by the Company, other than on Form S-4 or Form S-8.

On March 21, 2007, the Company converted a First Offering Note in the aggregate amount of $30,710, which consisted of $25,000 aggregate principal amount and $5,710 of accrued but unpaid interest, with a conversion price of $0.10 per share, into an aggregate of 307,102 shares of the Company s common stock.

2005 Second Offering

During 2005, pursuant to a private offering that commenced in January 2005 and terminated in August 2005 (the Second Offering), the Company received gross proceeds of $731,120 and net proceeds of $710,870 from 26 outside investors and issued its convertible promissory note (the Second Offering Note) due and payable one year from the date of issuance. The Second Offering Note bears interest at a rate of 10% per annum, payable on the maturity date. The Second Offering Note can be converted, in whole or in part, into 3,177,589 shares of the Company s common stock, at an exercise price ranging from $0.10 to $0.40 per share, as adjusted to reflect the Reverse Split, at any time prior to maturity by either the Company or the holder. The holder has the right to include (piggyback) the shares of common stock in a registration of securities filed by the Company, other than on Form S-4 or Form S-8.

Table of Contents

On March 21, 2007, the Company converted $850,550 in Second Offering Notes, which included $731,120 aggregate principal amount and $119,430 of accrued but unpaid interest, with various maturity dates and with various conversion prices, into an aggregate of 4,120,720 shares of the Company s common stock.

2005 Third Offering

Pursuant to another private offering, which commenced in September 2005 and terminated in February 2006 and received a total of $1,102,000 from this offering and of this amount $777,500 was received in the three month period ended March 31, 2006. On March 21, 2007, the Company converted an aggregate principal amount of $1,102,000 of Third Offering Notes and $117,931 of accrued but unpaid interest into an aggregate of 1,951,922 shares of the Company s common stock, at a conversion price of $0.625 per share.

The Company recorded an additional non-cash interest expense of $895,014 related to the conversion of an aggregate principal amount of $1,953,120 in note payable obligations, because the conversion common stock price set forth in these notes was less than the market price of the Company s common stock on the date of conversion.

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.

Note 4. Outstanding Warrants

The Company has certain warrants outstanding to purchase its common stock, at various prices, as described in the following table:

	Number of Warrants	Price Range
Outstanding as of December 31, 2006	3,046,878	$ 0.125 to $5.00
Issued	1,361,287	$ 1.25 to $1.30
Expired		
Exercised		
Outstanding as of September 30, 2007	4,408,165	$ 0.125 to $5.00

Note 5. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included the following:

	December 31, 2006	September 30, 2007
Accounts payable and accrued expenses	779,268	294,222
Accrued interest	923,472	452,158
Officer payable	337,796	45,639
Board of Director payable	270,963	16,500
Total Accounts Payable and Accrued Expenses	$ 2,311,500	$ 808,519

With respect to accounts payable, on March 21, 2007 the Company converted $704,296 related to consulting services, which were converted into 1,803,615 shares of the Company s common stock, at prices agreed upon with each consultant ranging between $0.25 to $0.625 per share. An expense totaling $199,666 was recorded in the nine-month period ended September 30, 2007 as the conversion common stock price was less than the market price of the Company s common stock at the date of conversion. All of these expenses were incurred prior to December 31, 2006.

On July 16, 2007 the Company converted $154,660 related to consulting services, which were converted into 237,938 shares of the Company s common stock at $0.65 per share, the closing price of a share of the Company s common stock on the conversion date. All of these expenses were incurred during 2007.

With respect to accrued interest, on March 21, 2007 the Company converted $246,124 related to accrued interest from the Company s note obligations, which were converted into an aggregate of 866,854 shares of the Company s common stock, at a price range of $0.10 -$0.625 per share under the terms of the note obligations. The accrued interest as of September 30, 2007, includes $380,658 of accrued and unpaid interest related to a note held by New Millennium Capital Partners, LLC (New Millennium), which was not included in the conversion of the principal and which balance will remain outstanding and will not accrue additional interest (see Note 8). The remaining accrued interest relates to the outstanding convertible promissory notes.

13

Table of Contents

With respect to officer and board of director payable, on March 15, 2007, the Company converted $608,759 of officer and board of director payables to five of its current or former officers and directors into 1,623,359 shares of the Company s common stock at $0.375 per share, the closing price of a share of the Company s common stock on the March 15, 2007 conversion date various conversion rates. All of these expenses were incurred prior to December 31, 2006.

On July 16, 2007 the Company converted $40,000 of board of director payables to two of its current directors into 61,539 shares of the Company s common stock at $0.65 per share, the closing price of a share of the Company s common stock on conversion date. All of these expenses were incurred during 2007.

Subsequent to September 30, 2007 the Company converted $81,900 of additional payables into shares of common stock. Of this amount, $25,000 owed for legal services provided to the Company in 2007 was converted into 69,445 shares of the Company s common stock at $0.36 per share, the closing price of the Company s common stock on the date of issuance. The remaining $56,900 of accrued payables owed to an officer, two directors and consultants for services provided to the Company in 2007 was converted into 90,321 shares of the Company s common stock at $0.43 per share, the closing price of the Company s common stock on the date of issuance. (See Note 12.)

Note 6. Deferred Revenue

Johnson & Johnson Agreement

Effective September 6, 2007, the Company entered into a product evaluation agreement with Johnson & Johnson Consumer and Personal Products Worldwide (CPPW), a division of Johnson & Johnson Consumer Companies, Inc. Over the next few months, CPPW will evaluate the Company s BioLargo technology for possible application in certain specific CPPW product lines. At the end of that period, CPPW will determine if it is interested in pursuing a subsequent business relationship with the Company. CPPW is under no obligation to pursue any subsequent business with the Company or to develop or commercialize a product at the end of the evaluation period.

CPPW will not obtain any rights to any portion of the BioLargo technology as a result of the product evaluation agreement. Additionally, among other things, the parties have agreed to keep each other s information and materials confidential.

Subsequent to September 30, 2007, the Company received a fee of $50,000 for providing CPPW up to 160 hours of technical assistance related to this agreement. For the three-month period ended September 30, 2007, the Company recorded $12,500 of revenue and recorded the remaining $37,500 as deferred revenue on its balance sheet.

Note 7. Augustine Loan

On April 11, 2007, Augustine II, LLC (Augustine Fund) converted an aggregate $717,138, which consists of $420,000 in principal and $297,138 of accrued but unpaid interest of a convertible note, as amended (Augustine Note) into 2,031,553 shares of the Company s common stock. The Augustine Note had a maturity date of May 1, 2007. The Augustine Note provided for a conversion price equal to the last bid price of the five trading days preceding the date of conversion, or $0.353 per share. The Augustine Note and the loan agreement in respect of the Augustine Note limited the Augustine Fund to hold not more than 4.9% of the Company s issued and outstanding common stock at any given time. In connection with the conversion of the Augustine Note, the Company waived this limitation.

Note 8. Related Party Transactions

In March 2003, New Millennium purchased from a third party (i) a $1,120,000 promissory note (New Millennium Note) assumed by the Company pursuant to a licensing transaction in October 2002, and (ii) 167,285 shares of the Company s common stock, as adjusted to reflect the Reverse Split. In exchange, New Millennium issued a $900,000 promissory note to the third party, secured by the 167,285 shares of the Company s common stock.

On April 28, 2006, the Company and New Millennium agreed to amend the terms of 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 $317,956 to $255,636, also equal to a 19.6% reduction.

14

Table of Contents

On April 13, 2007, New Millennium converted the $900,000 principal amount of the New Millennium Note into 1,636,364 shares of the Company s common stock. The New Millennium Note was converted at a price of $0.55 per share, which was the last bid price on the date of conversion. New Millennium is controlled by Dennis Calvert, the Company s President and Chief Executive Officer. Accrued but unpaid interest in the amount of $380,658 as of the conversion date of April 13, 2007 remains outstanding on the New Millennium Note, which amount is not due to be paid until January 15, 2008. No additional interest will be accrued on this obligation.

Note 9. Other Loans

In February 2005, the Company amended its obligations to Dr. James Seay under its promissory note dated November 20, 2003 in the principal amount of $50,000 and which matured on February 18, 2004. On the maturity date of the note, the Company was obligated to pay Dr. Seay $65,000. The Company paid Dr. Seay $30,000 and the balance of $35,000 remained outstanding. The amendment to the note entered into on February 10, 2005, (i) extends the maturity date of the note to February 3, 2006, (ii) provides for interest to accrue at a rate of 10% per annum (15% upon default), and (iii) allows for the conversion of the note into 280,000 shares of the Company s common stock, or $0.125 per share, as adjusted to reflect the Reverse Split. In February 2006, this note was further extended to the sooner of June 30, 2006, or the date the Company s stockholders approve an amendment to the Company s certificate of incorporation increasing the number of authorized shares of common stock. This was approved on March 15, 2007 and, accordingly, on March 29, 2007, the Company converted the principal amount of the note, plus accrued and unpaid interest in the amount of $6,588, into 332,704 shares of common stock at a share price of $0.125 per share.

On November 1, 2004 the Company converted $25,000 of obligations owed to a former provider of professional services into a promissory note, which amount accrues interest at 5% per annum. As of September 1, 2007, the Company and noteholder agreed to enter into a new loan agreement which converted the then accrued interest totaling $5,176 to principal and enter into a new one year note totaling $30,126, payable September 30, 2008 bearing interest at rate of 6% per annum. As of September 30, 2007 the principal amount of the note, together with $290 in accrued but unpaid interest, had not been repaid. During 2004, the Company raised $60,000 pursuant to a private offering and issued convertible promissory notes due and payable one year from the date of issuance. The maturity date of the notes were subsequently extended. As of December 31, 2006, the principal amount of the notes, together with $11,284 in accrued but unpaid interest, had not been repaid. On March 29, 2007, the principal amount of these notes, along with $12,512 in accrued and unpaid interest, were converted into 580,095 shares of the Company s common stock.

Note 10. Commitments and Contingencies

Obligation to Former Debenture Holder

As of December 31, 2006 and September 30, 2007 the Company had a remaining balance of $21,151 that it owes under a settlement agreement with a former convertible debenture holder, This amount in included in the Company s balance sheet. Note 11. Other Income.

Settlement Agreement

On July 10, 2007, the Company entered into a settlement agreement (Settlement Agreement) with Craig Sundheimer and Lloyd Jarvis (collectively, Sundheimer) with respect to the prior termination of their license agreement with IOWC, assigned to the Company pursuant to the Asset Purchase Agreement by and between the Company and IOWC. (See Note 2.)

The Settlement Agreement requires Sundheimer to pay $18,125 to the Company upon its execution. In addition to the initial payment, the Settlement Agreement requires Sundheimer pay to the Company 10% percent of sales by Sundheimer from the sale of super-absorbent pads and other related products to Blood Systems Inc., and of all sales from January 1, 2006 through December 31, 2011. The Company has received and recorded $37,608 as other income in its September 30, 2007 income statement.

Note 12. Subsequent Events

Syngenta Agreement

Effective October 3, 2007, BioLargo, Inc. and its wholly-owned subsidiary BioLargo Life Technologies, Inc. (collectively, the Company), entered into a product evaluation agreement (the Syngenta Agreement) with Syngenta Crop Protection, Inc. (Syngenta).

15

Over the next several months to one year, Syngenta will have the exclusive right to conduct initial evaluation and laboratory testing of the Company s BioLargo technology for its commercial utility in a field of use consisting of various specified agrochemical and similar applications. An initial milestone payment shall be paid by Syngenta to the Company for this initial evaluation and testing, and in exchange the Company has agreed not to engage in any negotiations or testing with other parties related to the specified field of use.

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. Should Syngenta then elect to commercialize a product based on the Company s 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, the Company 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 the Company s BioLargo technology as a result of the product evaluation 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.

Shares Issued for Consulting and Professional Services

On October 5, 2007 the Company converted $25,000 of accrued payables owed for legal services provided to the Company in 2007 into 69,445 shares of the Company s common stock at $0.36 per share, the closing price of the Company s common stock on the date of issuance.

On October 18, 2007 the Company converted $56,900 of accrued payables owed to an officer, two directors, and consultants for services provided to the Company in 2007 into 90,321 shares of the Company s common stock at $0.43 per share, the closing price of the Company s common stock on the date of issuance.

The offerings and the sales of securities pursuant to the conversions described above were made in reliance on the exemption from registration contained in Section 4(2) of the Securities Act of 1933 and/or Regulation D promulgated thereunder as not involving a public offering of securities.

Table of Contents

Item 2. Management s Discussion and Analysis

This Quarterly Report on Form 10-QSB of BioLargo, Inc. (the Company) contains forward-looking statements. These forward-looking statements include predictions regarding, among other things:

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

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

Such statements, which include statements concerning future revenue sources and concentrations, 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 elsewhere in this Form 10-QSB, that could cause actual results to differ materially from those projected.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under the heading Risk Factors in our Annual Report on Form 10-KSB for the year ended December 31, 2006. Unless otherwise expressly stated herein, all statements, including forward-looking statements, set forth in this Form 10-QSB are as of September 30, 2007, unless expressly stated otherwise, and we undertake no duty to update this information.

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

General Note

On March 15, 2007, our stockholders approved, and effective as of the close of business on March 21, 2007, we completed, a 1-for-25 reverse split of our common stock (the Reverse Split). Additionally, on March 15, 2007, our stockholders approved, and we have filed, an amendment to our certificate of incorporation increasing our authorized capital stock to 200,000,000 shares of common stock and 50,000,000 shares of preferred stock. Unless specifically stated otherwise, all references in this Report to our common stock are stated on a post-Reverse Split basis.

Introduction

By leveraging our suite of patented and patent-pending intellectual property, which we refer to as the BioLargo technology, our business strategy is to harness and deliver nature s best disinfectant iodine in a safe, efficient, environmentally sensitive and cost-effective manner. Our BioLargo technology works by combining minerals with water from any source and delivering molecular iodine on demand, in controlled dosages, in order to balance efficacy of disinfectant performance with concerns about toxicity. When our BioLargo technology is incorporated in absorbent products, they also experience increased holding power and may experience increased absorption.

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

We have been engaged in the research and product development of the BioLargo technology since July 2005, when we entered into a letter of intent with the inventor of the BioLargo technology, Kenneth Reay Code, who is now a director, our Chief Technology Officer and our principal stockholder. Between December 2006 and April 2007, we operated under a Marketing and Licensing Agreement with Mr. Code and a company he controls, IOWC Technologies, Inc. (IOWC). On April 30, 2007, we completed the acquisition of the BioLargo technology from IOWC.

Table of Contents

Our current focus is to develop opportunities to license our BioLargo technology to others in various vertical markets. We do not currently intend to manufacture our own products, although we will contract with others to manufacture the chemicals and minerals that comprise the BioLargo technology. We recently entered into two product evaluation agreements with third parties, pursuant to which our technology will be evaluated for possible application in specific product lines manufactured by such parties. See Plan of Operation below.

We had no continuing business operations until the completion of the acquisition of the BioLargo technology on April 30, 2007, and the Company operated as a public shell prior to such date. During the three-month period ended September 30, 2007 the Company earned and recorded its first revenue since the April 30, 2007 transaction.

Plan of Operation

Overview

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

Commercialization of the BioLargo Technology

We plan to pursue our primary revenues from licensing our BioLargo technology. Subject to regulatory compliance where applicable, our BioLargo technology is presently available for incorporation into certain products, including absorbent pads and materials to be used for clean up of or as a precautionary measure from spills of liquids, including hazardous materials.

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

A typical early step in seeking to market our BioLargo technology is to enter into confidentiality agreements with potential licensees. These confidentiality agreements contain, among other things, protection of, and confirmation of our continued ownership in, all of our intellectual property. We then often deliver samples of material incorporating our BioLargo technology for testing. To date, we have entered into numerous such confidentiality agreements and delivered samples.

In addition to confidentiality agreements, we may also enter into material testing agreements with potential licensees. These agreements typically provide that the results of sample testing are shared with us, whereas they may or may not be shared with us under confidentiality agreements. To date, we have entered into four material testing agreements, two of which have so far led to product evaluation agreements.

Recently, we took our first major steps towards commercializing our BioLargo technology by entering into two product evaluation agreements, pursuant to which our BioLargo technology will be evaluated for application to specific product lines. Under these agreements, we receive a fee for providing access to our BioLargo technology and for our technical support to assist in the evaluation of our BioLargo technology within the defined areas of evaluation.

Johnson & Johnson 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. CPPW will evaluate our BioLargo technology for possible application in certain specific CPPW product

18

Table of Contents

lines. At the end of this evaluation period, CPPW will determine if it is interested in pursuing a subsequent business relationship. CPPW is under no obligation to pursue any subsequent business with us or to develop or commercialize a product at the end of the evaluation period.

CPPW will not obtain any rights to any portion of the BioLargo technology as a result of the CPPW Agreement. Additionally, among other things, the parties have agreed to keep each other s information and materials confidential.

Syngenta Agreement

Subsequent to the quarter ending September 30, 2007 and effective October 3, 2007, we entered into a product evaluation agreement (the Syngenta Agreement) with Syngenta Crop Protection, Inc. (Syngenta). Over the next several months to approximately one year, Syngenta will have the exclusive right to conduct 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 shall be paid to us by Syngenta 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 fields of use.

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. 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 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 we make 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 we make jointly with Syngenta 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.

Sales and Marketing

We intend to devote a significant part of our resources to sales and marketing of the BioLargo technology to potential licensees. Subject to obtaining adequate financing, for which no commitments are currently in place, we intend to initially focus on the following vertical markets:

Agriculture - food, plant, seed and soil washes and sprays (herbicides, fungicides, pesticides, decontamination of soil in animal enclosures and disinfection of related equipment)

Medical and Consumer Products - disinfection and sanitization products for medical applications (medical antiseptic, antimicrobial, disinfectant washes, and sprays, wipes, and absorbent materials)

Water / Remediation - remediation of waste, drinking, surface, storm and ground waters (irrigation run-off, storm drain discharge, wetlands management, storage and transport aqueducts, canals and reservoirs, wells and other consumer water supplies), and soil and beach remediation

Hazmat Packaging - diagnostics and pathogens (bio-hazard containment, blood transport)

Homeland Security - Leaks, spills, and disaster clean-up (toxic spills, bio-terrorist threats, and natural disasters)

Food Safety - packaging and processing

Table of Contents

While specific efforts will vary based on market conditions and opportunities that present themselves from time to time, the following discussion of recent efforts is indicative of the types of efforts we expect to undertake on an ongoing basis.

In 2006, we focused on pre-marketing activities to establish credibility in the technology. For example, in April 2006, we engaged Robert Stewart, Ph.D., to serve as our regulatory specialist for required activities involving the Environmental Protection Agency (EPA) and the Food and Drug Administration. During this period, we also focused on establishing relationships with key agents who work on a commission basis to assist us in marketing to large corporations and other organizations. In May 2006, we hired a consultant to assist us on our marketing and sales efforts.

In February 2006, we began discussions with major research universities to further our research for specific applications. In September 2006, we hired UCLA to research applications of the BioLargo technology for beach and soil remediation. An initial report regarding this research was presented in October 2006 at the National Beaches Conference sponsored by the EPA. We are discussing expanding the scope of study in this area with UCLA.

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

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

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

During 2007, we continued our efforts from 2006, and have increased our marketing efforts, focusing on executing agreements with potential licensees to earn a license fee. We entered into negotiations regarding testing and product development with several leading companies in their field. To date, these negotiations have resulted in two product evaluation agreements. (See *Johnson & Johnson Agreement*, and *Syngenta Agreement*, above.) We are continuing discussions with other potential licensees or other users of products incorporating our BioLargo technology in a range of applications, including beach remediation and homeland security applications with the U.S. Department of Defense. A number of prospective licensees are engaged in materials and product testing efforts, as well as discussions with us about product designs and various uses of our BioLargo technology. However, it is essential to note that, other than with CPPW and Syngenta, we do not yet have any agreements in place with any of these parties, and no assurance can be given if any such efforts will prove successful or result in commercialization of our BioLargo technology.

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

We currently anticipate that research and development costs over the next 12 months could be significant, and will range considerably, subject to the amount of third-party financing, if any, which we receive. To the extent that we are able to secure sufficient additional financing, we may be in a position to accelerate and expand the scope of our research and development activities. Among other things, we would invest any such funds primarily on continued testing of the BioLargo technology in certain applications and the development of additional production methods for use of the BioLargo technology. Although we are actively pursuing such financing, no such commitment is in place at present.

Table of Contents

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

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

Results of Operations Comparison of the three- and nine-month periods ended September 30, 2007 and 2006

Revenue

We generated $12,500 in revenues from operations during the three- and nine-month periods ended September 30, 2007, compared with no revenues from operations during the three- and nine-month periods ended September 30, 2006. These revenues were generated from a product evaluation agreement entered in the three-month period ending September 30, 2007.

Selling, General and Administrative Expense

Selling, general and administrative expenses were $493,000 and $1,795,000 for the three- and nine-month periods ended September 30, 2007, respectively, compared to $527,000 and $1,077,000 for the three- and nine-month periods ended September 30, 2006, respectively. The largest components of these expenses were:

a. Salaries and Payroll-related Expenses: These expenses were $111,000 and $254,000 for the three- and nine-month periods ended September 30, 2007, compared to $46,000 and $139,000 for the three- and nine-month periods ended September 30, 2006, an increase of $65,000 and $115,000, respectively. The increase is attributable to an increase in for salary related to Dennis Calvert, our President and Chief Executive Officer; Joseph Provenzano, our Secretary; and Kenneth Code, our Chief Technology Officer.

b. Consulting Expenses: These expenses were $164,000 and $405,000 for the three- and nine-month periods ended September 30, 2007, compared $349,000 and $567,000 for the three- and nine-month periods ended September 30, 2006, a decrease of $185,000 and $162,000, respectively. This decrease is primarily attributable to the one time stock issuance to Mr. Code in 2006 pursuant to the R&D Agreement. Our utilization of consultants is consistent with executing our business plan to commercialize our BioLargo technology; providing applications of our BioLargo technology for potential licensees or other customers in various vertical markets; advising us in various respects regarding our business and opportunities; furthering product development and design; providing financial, valuation and marketing services; licensing, initial marketing and pre-sale research and activities; and various other consulting services.

c. Professional Fees: These expenses were $119,000 and $709,000 for the three- and nine-month periods ended September 30, 2007, compared to $62,000 and $180,000 for the three- and nine-month periods ended September 30, 2006, an increase of $57,000 and $529,000, respectively. The increase is primarily attributable to an increase in (i) our need for legal work related to our BioLargo technology, including the multiple patent applications, as well as obtaining stockholder approvals and preparing for the closing of the transactions with IOWC and Mr. Code; (ii) investment banking fees; (iii) accounting fees; and (iv) audit services.

d. Other Expense: These expenses were $0 and $200,000 for the three and nine-month periods ended September 30, 2007, compared to $0 and $0 for the three- and nine-month periods ended September 30, 2006. These expenses were the result of converting account payables and accrued expenses, because the conversion common stock price was less than the market price of our common stock on the dates of conversion.

Table of Contents

Research and Development

Research and development expenses were $6,000 and $48,000 for the three- and nine-month periods ended September 30, 2007, respectively, compared to $24,000 and $108,000 for the three- and nine-month periods ended September 30, 2006. Our level of research and product development has varied based on available capital and is consistent with our plan to provide applications of our BioLargo technology to potential licensees or other customers in various vertical markets.

Net Loss

Net loss for the three- and nine-month periods ended September 30, 2007 was $481,824 and $2,768,089, or a loss of $0.01 and $0.11 per share, respectively. Comparatively, for the three- and nine-month periods ended September 30, 2006, net loss was $652,498 and $1,185,920, or a loss of $0.23 and $0.45 per share, respectively.

Liquidity and Capital Resources

We have been, and we will be, limited in terms of our capital resources. Cash and cash equivalents totaled $126,093 at September 30, 2007. We generated $12,500 of revenue in the three-month period ended September 30, 2007 and 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 additional capital to sustain operations and implement our business plan.

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 $2,768,913 for the nine-month period ended September 30, 2007, negative cash flow from operating activities of $1,050,241 for the nine-month period ended September 30, 2007, and a stockholders deficit of $32,308,807 as of September 30, 2007. 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 and commercially exploit our BioLargo technology. Our financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

In order to meet operating expenses and other financial obligations, we have been forced to use cash on hand to fund our operations. We have also continued to sell convertible promissory notes to investors. During the nine-month period ended September 30, 2007, we raised $947,000 gross and net proceeds. Of this amount $516,000 was included in the Fall 2006 private offering which terminated on April 25, 2007. The remaining $431,000 was included in the Spring 2007 private offering. The notes issued in our 2005 offerings were converted into shares of our common stock in March 2007. The Fall 2006 and Spring 2007 Notes remain outstanding. (See Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds.)

During 2007, we have taken significant steps to reduce our financial obligations. Following stockholder approval on March 15, 2007 for the recapitalization of our stock and the Reverse Split, we converted an aggregate principal amount of $1,953,120 and aggregate accrued but unpaid interest in the amount of $282,156, in respect of convertible notes held by 92 investors. These notes had various maturity dates and provided for various conversion prices ranging from $0.10 to $0.625 per share and were converted into an aggregate 6,985,441 shares of our common stock. We also converted an aggregate $608,759 of accrued payables to five of our current or former officers and directors into an aggregate 1,623,359 shares of our common stock. These conversions were effected at $0.375 per share, the closing price of a share of our common stock on the March 15, 2007 conversion date.

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

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

22

Table of Contents

On April 13, 2007, the board of directors and New Millennium Capital Partners, LLC (New Millennium) agreed to convert the principal amount of a $900,000 promissory note (the New Millennium Note) held by New Millennium into 1,636,364 shares of our common stock. The New Millennium Note had a maturity date of January 15, 2008, and was converted at a price of $0.55 per share, which was the last bid price on the date of conversion. New Millennium is controlled by Dennis Calvert, our President and Chief Executive Officer. The accrued but unpaid interest in the amount of $380,658 was not converted, and as of September 30, 2007 remains outstanding. No additional interest will accrue on this outstanding balance.

On July 16, 2007, we converted an aggregate $194,660 of accrued payables to 13 of our current or former consultants into an aggregate 299,477 shares of our common stock, at $0.65 per share, which was the last bid price on the date of conversion.

As a result of the foregoing transactions, as of September 30, 2007, we had converted an aggregate $5,396,129 of obligations, consisting primarily of principal amount of notes, accrued and unpaid interest, salaries, fees and payables, into an aggregate 14,379,809shares of our common stock. Of the $5,396,129in obligations converted, $347,714 related to obligations incurred 2007, and the remaining $5,048,415 related to obligations incurred prior to December 31, 2006.

As of September 30, 2007, we had outstanding $1,431,000 aggregate principal amount with respect to convertible promissory notes; we had outstanding $21,151 debenture payable; we had outstanding $30,126 as a note payable; and we had outstanding $808,519 of accounts payable and accrued expenses, which amount consists of (i) $452,158 in accrued and unpaid interest, including $71,210 relating to outstanding convertible promissory notes and $380,658 relating to interest due New Millennium, and (ii) $294,222 in accounts payable, including amounts owed to professionals, directors and an officer.

Subsequent to the quarter ended September 30, 2007, on October 5, 2007, we converted $25,000 of accrued payables to one of our professional advisers into 69,445 shares of our common stock, at $0.36 per share, which was the last bid price on the date of conversion. The payable is for services performed in 2007.

On October 18, 2007 the Company converted $56,900 of accrued payables owed to an officer, two directors, and consultants for services provided to the Company in 2007 into 90,321 shares of the Company s common stock at $0.43 per share, the closing price of the Company s common stock on the date of issuance.

In order to meet our continuing obligations, we will be required to raise substantial additional capital to sustain our expanded operations following the acquisition of the BioLargo technology, including without limitation, hiring additional personnel, additional scientific and third-party testing, costs associated with obtaining regulatory approvals and filing additional patent applications to protect our intellectual property, as well as to meet our liabilities as they become due for the next 12 months, including the Fall 2006 Notes when they mature in 2008, unless we convert the Fall 2006 Notes, which we may do at our option, into shares of our common stock.

Accordingly, we commenced a private offering on May 31, 2007 (the Spring 2007 Offering), pursuant to which we are offering up to $1,000,000 of our convertible notes (the Spring 2007 Notes), which are due and payable on June 30, 2009. Interest on the Spring 2007 Notes 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 Spring 2007 Notes receive, for no additional consideration, stock purchase warrants (the Spring 2007 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 Spring 2007 Note is convertible. The Spring 2007 Offering is continuing as of the date of the filing of this Report.

From May 31, 2007 through November 2, 2007, we received gross and net proceeds of $ 441,000 from 13 investors and issued Spring 2007 Notes which allow conversion into an aggregate of 630,004 shares of our common stock and Warrants exercisable for 630,004 shares of our common stock. Of these amounts, during the nine-month period ended September 30, 2007, we received gross and net proceeds of $431,000 from 11 investors and issued Spring 2007 Notes which allow conversion into an aggregate of 615,718 shares of our common stock and Warrants exercisable into an aggregate of 615,718 shares of our common stock. The offering is continuing as of the date of the filing of this Report.

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

23

Table of Contents

Significant Obligations

Significant obligations at September 30, 2007 included:

(i) Fall 2006 Notes and Spring 2007 Notes in the aggregate principal amount of $1,431,000, together with accrued and unpaid interest in the aggregate amount of $71,210, which obligations are mandatorily convertible into shares of our common stock at the option of the Company and are discussed in more detail above;

(ii) $380,658 of interest due to New Millennium pursuant to an agreement to convert the New Millennium Note into shares of our common stock;

(iii) $294,222 in accounts payable to various parties;

(iv) $30,126 remaining principal amount of a promissory note, together with accrued and unpaid interest in the amount of $290, relating to professional fees; and

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

Obligation to New Millennium

In March 2003, New Millennium purchased from a third party (i) a $1,120,000 promissory note we had assumed pursuant to a licensing transaction in October 2002, and (ii) 167,285 shares of our common stock, as adjusted to reflect the Reverse Split. In exchange, New Millennium issued a $900,000 promissory note to the third party, secured by the 167,285 shares of our common stock, as adjusted to reflect the Reverse Split.

On April 28, 2006, 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 agreed to convert the $900,000 principal amount of the New Millennium Note 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. Accrued but unpaid interest in the amount of $380,658 as of the conversion date of April 13, 2007 remains outstanding on the New Millennium Note, which amount is not due to be paid until January 15, 2008. No additional interest will accrue on this obligation.

Obligation Relating to Professional Fees

On November 1, 2004 the Company converted $25,000 of obligations owed to a former provider of professional services into a promissory note, which amount accrues interest at 5% per annum. On September 1, 2007, the Company and noteholder agreed to enter into a new loan agreement which converted the then accrued interest totaling $5,176 to principal and enter into a new one year note totaling $30,126, payable September 30, 2008 bearing interest at rate of 6% per annum. As of September 30, 2007 the principal amount of the note, together with $290 in accrued but unpaid interest, had not been repaid.

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.

24

Table of Contents

The methods, estimates and judgments we use in applying these most critical accounting policies have a significant impact on the results of our reports in our 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. We entered into product evaluation agreements which provide a non-refundable fee which is recognized over the term of the evaluation agreement as earned.

We have established a policy relative to the methodology to determine the value assigned to each intangible acquired with or licensed by us 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, as adjusted for applicable discounts.

It is our 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.

Recent Accounting Pronouncements

In June 2006, FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48) which defines the threshold for recognizing the benefits of tax return positions in the financial statements as more-likely-than-not to be sustained by the taxing authority. A tax position that meets the more-likely-than-not criterion shall be measured at the largest amount of benefit that is more than 50% likely of being realized upon ultimate settlement. FIN 48 applies to all tax positions accounted for under SFAS No. 109, Accounting for Income Taxes. Interpretation No. 48 is effective for fiscal years beginning after December 15, 2006. Upon adoption, the financial statements will be adjusted to reflect only those tax positions that are more-likely-than-not to be sustained as of the adoption date. Any adjustment will be recorded directly to our beginning retained earnings balance in the period of adoption and reported as a change in accounting principle. We do not expect the adoption of Interpretation No. 48 will have a material effect on our consolidated financial statements.

In September 2006, FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value consistently with accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective beginning in October 2008. We are currently evaluating the impact of adopting this standard.

In September 2006, the SEC issued Staff Accounting Bulletin no. 108 (SAB 108) to clarify consideration of the effects of prior year errors when quantifying misstatements in current year financial statements for the purpose of quantifying materiality. SAB 108 requires issuers to quantify misstatements using both the rollover and iron curtain approaches and requires an adjustment to the current year financial statements in the event that after the application of either approach and consideration of all relevant quantitative and qualitative factors, a misstatement is determined to be material. SAB 108 is effective for fiscal years beginning after November 15, 2006. We do not expect the adoption of SAB 108 will have a material effect on our consolidated 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 our present or future consolidated financial statements.

Item 3. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. Our management evaluated, with the participation of Dennis Calvert, who serves as both our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-QSB. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) are effective 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

25

Table of Contents

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. 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.

(b) Changes in internal control over financial reporting: There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-QSB that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II

Item 1. Legal Proceedings

None.

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

In September 2006, we commenced a private offering that terminated in April 2007 (the Fall 2006 Offering), in which 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, convertible into 1,454,546 shares of the Company s 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 balance subsequent to December 31, 2006. Each Fall 2006 Offering 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 a 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 is exercisable at an initial price of $1.25 per share, and will expire on September 13, 2009.

On March 15, 2007, the 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.

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, in respect of convertible notes held by 92 investors. These notes had various maturity dates and provided for various conversion prices ranging from $0.10 to $0.625 per share and were converted into an aggregate 6,985,441 shares of our common stock. We also converted an aggregate $608,759 of accrued payables to five current or former officers and directors into an aggregate 1,623,359 shares of our common stock. These conversions were effected at $0.375 per share, the closing price of a share of our common stock on the March 15, 2007 conversion date.

On March 29, 2007, we converted a note held by a former consultant in the outstanding principal amount of $35,000, plus accrued and unpaid interest in the amount of $6,588, into 332,704 shares of our common stock.

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

Pursuant to a private offering that commenced on May 31, 2007 (the Spring 2007 Offering) and which is continuing as of the date of the filing of this Report, we are offering up to $1,000,000 of our convertible notes (the Spring 2007 Notes), which are due and payable on June 30, 2009. 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 Spring 2007 Notes receive, for no additional consideration, stock purchase warrants (the Spring 2007 Warrants) entitling the holder to purchase a number of shares of Company s Common Stock equal to the number of shares of Common Stock into which the principal amount of the investor s Spring 2007 Note is convertible. The Spring 2007 Warrants are exercisable at $1.30 per share and will expire on June 30, 2010.

The Spring 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 Spring 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 Spring 2007 Notes in cash or choose to convert the notes, at our sole option, into shares of our common stock.

From May 31, 2007 through November 2, 2007, we received gross and net proceeds of $441,000 from 13 investors and issued Spring 2007 Notes which allow conversion into an aggregate of 630,004 shares of our common stock and Warrants exercisable for 630,004 shares of our common stock. Of these amounts, during the nine-month period ended September 30, 2007, we received gross and net proceeds of $431,000 from 11 investors and issued Spring 2007 Notes which allow conversion into an aggregate of 615,718 shares of our common stock and Warrants exercisable into an aggregate of 615,718 shares of our common stock. The offering is continuing as of the date of the filing of this Report.

27

Table of Contents

On July 16, 2007, we converted an aggregate $194,660 of accrued payables to 13 of our current or former consultants into an aggregate 299,477 shares of our common stock, at $0.65 per share, which was the last bid price on the date of conversion.

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 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

We held our annual meeting of stockholders on September 6, 2007. At that meeting, our stockholders:

1. Elected five directors to serve until our 2007 annual meeting of stockholders or until his successor is duly elected and qualified:

Name	For	Withheld
Dennis Calvert	29,696,888	49,352
Kenneth R. Code	29,717,041	29,199
Gary A. Cox	29,733,477	12,763
Dennis E. Marshall	29,733,314	12,926
Joseph Provenzano	29,733,314	12,926

2. Approved the BioLargo, Inc. 2007 Equity Incentive Plan:

Votes For	28,328,590
Votes Against	6,057
Abstentions	71,032
Broker Non-Votes	1,340,561

3. Ratified the appointment of Jeffrey S. Gilbert as our independent auditors for the current fiscal year:

Votes For	29,717,333
Votes Against	14,197
Abstentions	14,710
Broker Non-Votes	0

Item 5. Other Information

None

Item 6. Exhibits

The exhibits listed below are attached hereto and filed herewith:

Exhibit No.	Description
10.1*	Promissory note related to professional fees
10.2*	BioLargo, Inc. 2007 Equity Incentive Plan
31.1**	Certification of Chief Executive Officer of Quarterly Report Pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e).
31.2**	Certification of Chief Financial Officer of Quarterly Report Pursuant to 18 U.S.C. Section 1350
32**	Certification of Chief Executive Officer and Chief Financial Officer of Quarterly Report pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e).

* Previously filed.

** Filed herewith

28

Table of Contents

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has caused Amendment No. 1 to this report to be signed on its behalf by the undersigned, hereunto duly authorized.

	BIOLARGO, INC.
Date: January 3, 2008	By: /s/ Dennis Calvert Dennis Calvert Chief Executive Officer and Chief Financial Officer

29

Table of Contents

EXHIBIT INDEX

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31.2**	Certification of Chief Financial Officer of Quarterly Report Pursuant to 18 U.S.C. Section 1350
32**	Certification of Chief Executive Officer and Chief Financial Officer of Quarterly Report pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e).

* Previously Filed.

** Filed herewith.