

BIOLARGO, INC.
Form 10QSB
August 28, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2007.

or

.. **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File Number 000-19709

BIOLARGO, INC.

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

2603 Main Street, Suite 1155

Irvine, California 92614

(Address, including zip code, of principal executive offices)

65-0159115
(I.R.S. Employer

Identification No.)

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(949) 235-8062

(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Exchange Act: Common Stock, \$0.0067 par value.

Check whether the Registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

The number of shares of the Registrant's Common Stock outstanding as of Aug 23, 2007 was 39,654,643 shares.

DOCUMENTS INCORPORATED BY REFERENCE: None

Transitional Small Business Disclosure Format (Check one): Yes No

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Table of Contents**PART I****Item 1. Financial Statements****BIOLARGO, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****AS OF DECEMBER 31, 2006 AND JUNE 30, 2007****ASSETS**

	December 31, 2006	June 30, 2007 (unaudited)
CURRENT ASSETS		
Cash and cash equivalents	\$ 229,334	\$ 84,327
Prepaid expenses	16,500	
Total current assets	245,834	84,327
TOTAL ASSETS	\$ 245,834	\$ 84,327
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 2,311,500	\$ 801,055
Convertible notes payable, current portion	2,373,070	
Note payable, related party	900,000	
Note payable	25,000	25,000
Debentures payable, net	21,151	21,151
Total current liabilities	5,630,721	847,206
LONG-TERM LIABILITIES		
Convertible notes payable, net of current portion	484,000	1,096,950
Total long-term liabilities	484,000	1,096,950
TOTAL LIABILITIES	6,114,721	1,944,156
COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS		
STOCKHOLDERS DEFICIT		
Convertible Preferred Series A, \$.00067 par value, 50,000,000 shares authorized, -0- shares issued and outstanding at June 30, 2007 and at December 31, 2006		
Common Stock, \$.00067 par value, 200,000,000 shares authorized, 39,355,166 and 3,135,822 shares issued at June 30, 2007 and December 31, 2006, respectively		
Additional paid-in capital	52,256	76,523
Accumulated deficit	23,618,750	29,890,631
	(29,539,893)	(31,826,983)
Total stockholders deficit	(5,868,887)	(1,859,829)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	\$ 245,834	\$ 84,327

See accompanying notes to consolidated financial statements.

Table of Contents**BIOLARGO, INC. AND SUBSIDIARIES****STATEMENTS OF OPERATIONS FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED****JUNE 30, 2006 AND 2007****(UNAUDITED)**

	For the three-month period ended June 30,		For the six-month period ended June 30,	
	2006	2007	2006	2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	\$	\$	\$	\$
Total revenue				
Costs and expenses				
Selling, general and administrative	207,449	682,592	550,157	1,301,887
Research and development	73,529	23,511	84,298	42,003
Total costs and expenses	280,978	706,103	634,455	1,343,890
Loss from operations	(280,978)	(706,103)	(634,455)	(1,343,390)
Other income and (expense)				
Interest expense	(30,815)	(22,944)	(118,976)	(975,504)
Reduction to note payable	220,000		220,000	
Reversal of accruals related to prior periods		32,305		32,305
Net other income and (expense)	189,185	9,361	101,024	(943,199)
Net loss	\$ (91,793)	\$ (696,742)	\$ (533,431)	\$ (2,287,089)
Loss per common share basic and diluted				
Loss per share	\$ (0.04)	\$ (0.02)	\$ (0.22)	\$ (0.13)
Weighted average common share equivalents outstanding	2,499,130	30,777,550	2,456,730	17,631,060

See accompanying notes to consolidated financial statements.

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BIOLARGO, INC. AND SUBSIDIARIES
STATEMENTS OF STOCKHOLDERS DEFICIT
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2007
(UNAUDITED)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Deficit	Total
	Number of Shares	Par Value \$.00067	of Shares	Par Value \$.00067			
BALANCE DECEMBER 31, 2006		\$	3,135,822	\$ 52,256	\$ 23,618,750	\$ (29,539,894)	\$ (5,868,888)
CONVERSION OF NOTE OBLIGATIONS (INCLUDING ADDITIONAL INTEREST EXPENSE)			6,985,441	4,680	3,125,610		3,130,290
SHARES ISSUED FOR SERVICES (INCLUDING ADDITIONAL COSTS AND EXPENSES)			1,803,615	1,209	938,752		939,961
CONVERSION OF BOARD OF DIRECTOR AND OFFICER PAYABLES			1,623,359	1,088	607,671		608,759
SHARES ISSUED FOR IOWC ACQUISITION			22,139,012	14,833	(14,833)		
CONVERSION OF AUGUSTINE NOTE PAYABLE OBLIGATION			2,031,553	1,361	715,777		717,138
CONVERSION OF NEW MILLENIUM NOTE PAYABLE OBLIGATION (RELATED PARTY)			1,636,364	1,096	898,904		900,000
NET LOSS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2007						(2,287,089)	(2,287,089)
BALANCE JUNE 30, 2007		\$	39,355,166	\$ 76,523	\$ 29,890,631	\$ (31,826,983)	\$ (1,859,829)

See accompanying notes to consolidated financial statements.

Table of Contents**BIOLARGO, INC. AND SUBSIDIARIES****STATEMENTS OF CASH FLOWS FOR THE SIX-MONTH PERIODS ENDED****JUNE 30, 2006 AND 2007****(UNAUDITED)**

	For the six-month period ended June 30,	
	2006	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (533,431)	\$ (2,287,089)
Adjustments to reconcile net loss to net cash used in operating activities:		
Conversion of note payable obligations and additional non-cash interest expense		1,216,904
Conversion of consultant obligations and additional non-cash expense		160,625
Decrease in prepaid expenses	(42,500)	(16,500)
Increase in accounts payable and accrued expenses	82,055	168,053
Net cash used in operating activities	(493,876)	(758,007)
CASH FLOWS FROM INVESTING ACTIVITIES		
No cash used in or provided by investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Reduction of note payable, related party	(220,000)	
Funds from convertible notes payable	777,500	613,000
Net cash provided by financing activities	557,500	613,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	63,624	(145,007)
CASH AND CASH EQUIVALENTS BEGINNING	283,462	229,334
CASH AND CASH EQUIVALENTS ENDING	\$ 347,086	\$ 84,327
SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION		
Cash paid during the period for:		
Interest	\$	\$
Income taxes	\$	\$
Conversion of note payable, related party to shares of the company's common stock	\$	\$ 900,000
Conversion of convertible notes payable to shares of the company's common stock	\$	\$ 2,373,120
Conversion of accrued expenses to shares of the company's common stock:		
Board of director and officer payable	\$	\$ 608,759
Consultant payable	\$	\$ 740,296

See accompanying notes to consolidated financial statements.

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Accounting Policies-Basis of Presentation

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

Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-QSB should be read in conjunction with Management's Discussion and Analysis and financial statements and notes thereto included in the BioLargo, Inc. Annual Report on Form 10-KSB for the year ended December 31, 2006.

Note 2. Business and Organization

Outlook

BioLargo, Inc. (the Company) had no continuing business operations until the completion of the acquisition of the BioLargo technology on April 30, 2007, and operated as a public shell prior to such date. On April 30, 2007, the Company completed its acquisition of the BioLargo technology from IOWC Technologies, Inc. (IOWC) and issued to IOWC 22,139,120 shares of the Company's common stock.

The Company will need working capital resources to maintain the Company's status and to fund other anticipated costs and expenses during the year ending December 31, 2007 and beyond, as well as to fund the exploitation of the BioLargo technology. The Company's ability to continue as a going concern is dependent on the Company's ability to raise capital to, at a minimum, meet its corporate maintenance requirements and fund the operations necessary to commercially exploit the BioLargo technology. It would need additional outside capital until and unless that technology is able to generate positive working capital sufficient to fund the Company's cash flow requirements from operations.

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of the Company's business. As reflected in the accompanying financial statements, the Company had a net loss of \$2,287,089 for the six-month period ended June 30, 2007, negative cash flow from operating activities of \$758,007 for the six-month period ended June 30, 2007, and an accumulated stockholders' deficit of \$31,826,983 as of June 30, 2007. Also, as of June 30, 2007, the Company had limited liquid and capital resources. The foregoing factors raise substantial doubt about the Company's ability to continue as a going concern. Ultimately, the Company's ability to continue as a going concern is dependent upon its ability to attract new sources of capital, exploit the technology acquired so it attains a reasonable threshold of operating efficiencies and achieves profitable operations. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Cash and cash equivalents totaled \$84,327 at June 30, 2007. The Company had no revenues in the three and six-month periods ended June 30, 2007, and its financing activities funded operations.

During the six-month period ended June 30, 2007, the Company sold an aggregate \$613,000 principal amount of its convertible promissory notes. Of this amount \$516,000 was sold pursuant to the offering commenced in the fall of 2006 (the Fall 2006 Offering) due and payable September 13, 2008 to 22 investors (see Note 3). The remaining \$97,000 was sold pursuant to the offering commenced in the spring of 2007 (the Spring 2007 Offering) due and payable June 30, 2009 to six investors (see Note 3).

As of June 30, 2007, the Company had \$1,121,950 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 \$1,096,950 (see Note 3); and (ii) a promissory note totaling \$25,000 due to a former professional for legal services (see Note 8). The Company currently intends to require the conversion of the \$1,096,950 aggregate principal amount of notes upon maturity, in which case the Company will not require funds to repay or redeem such notes.

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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").

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Additionally, on March 15, 2007, the Company's stockholders approved and the Company has filed, an amendment to the Company's certificate of incorporation increasing the Company's authorized capital stock to 200,000,000 shares of common stock and 50,000,000 shares of preferred stock. 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 the BioLargo Technology

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