

BIOLARGO, INC.
Form 10-K
March 30, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year ended December 31, 2015

OR

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

For the Transition Period from to

Commission File Number: 000-19709

BIOLARGO, INC.
(Exact Name of registrant as specified in its Charter)

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

3500 W. Garry Ave., Santa Ana, CA
(Address of principal executive offices)

92704
(Zip Code)

Registrant's telephone number, including area code: (949) 643-9540

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

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

Common Stock, \$0.00067 par value

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2015 was approximately \$19,196,841 which is based on 51,883,353 shares of common stock held by non-affiliates and the price at which the common equity was sold on that date.

The number shares outstanding of the issuer’s class of common equity as of March 29, 2016 was 86,271,712; no preferred shares are issued or outstanding as of that date.

DOCUMENTS INCORPORATED BY REFERENCE

Information required by Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K are incorporated by reference from the Registrant’s Proxy Statement for its annual meeting to be held June 20, 2016.

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PART I

ITEM 1. BUSINESS

USE OF FORWARD LOOKING STATEMENTS IN THIS REPORT

This annual report on Form 10-K for the year ended December 31, 2015 (the “Annual Report”) contains forward-looking statements. These forward-looking statements include, but are not limited to, predictions regarding:

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

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

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

The information contained in this Annual Report is as of December 31, 2015, unless expressly stated otherwise.

As used in this report, the term “we” or “Company” refers to BioLargo, Inc., a Delaware corporation, and its subsidiaries, BioLargo Life Technologies, Inc., a California corporation, Odor-No-More, Inc., a California corporation, BioLargo Water USA, Inc., a California corporation, and Clyra Medical Technologies, Inc., a California corporation. On January 10, 2014, we formed a Canadian subsidiary BioLargo Water, Inc., wholly owned by Biolargo Water USA, Inc.

Our Business

We make life better by delivering simple and sustainable solutions to big problems. We create and refine intellectual property that forms a foundation from which to build and create break-through products and technology for licensure to commercial partners. Our products harness the power of iodine – “Nature's Best Solution” – to eliminate contaminants that threaten our water, our health and our quality of life.

We **invent, patent, prove and partner** – to create best-of-class products and technology for commercialization as we build value for our shareholders and deliver benefits to our world.

Invent – Three Platform Technologies

We feature three patent protected platform technologies with diverse product opportunities across multiple industries – the AOS Filter, CupriDyne, and Isan. Each features the use of the all-natural iodine molecule. While they all use iodine, they are quite different in terms of the methods by which they exploit the use of iodine, the form and composition of iodine used, and therefore their function and value proposition can be quite different for each commercial application.

AOS Filter

The AOS Filter is our invention that combines iodine, water filter materials and electrolysis within a water filter device. Our filter generates extremely high oxidation potential in order to oxidize and break-down, or otherwise eliminate, soluble organic contaminants like acids, solvents, sulfurs, oil and gas by-products, and pharmaceutical by-products which are commonly found in all sorts of contaminated water. It also achieves extremely high rates of disinfection to eliminate infectious biological pathogens like salmonella, listeria and ecoli.

Extremely high oxidation potential is the key. The term ‘oxidation potential’ refers to the measure of the performance in which an oxidant is able to ‘break down’ a material through, in simple terms, the addition of oxygen and the transfer of electrons. Two commonly understood examples of oxidation are, as salt air rusts a shipyard anchor, or as fire is able to dismantle wood and turn it into ash. The key to our AOS Filter is its ability to generate extremely high oxidation potential in a continuous flow device that attacks contaminants in water that flow through the AOS Filter. The extremely high oxidation potential enables the AOS Filter to achieve performance results that researchers at the University of Alberta refer to as, ‘**unprecedented**’. Our AOS Filter embodies a break-through in science which led to BioLargo's co-founding of an ongoing research chair to solve the contaminated water issues associated with the Canadian Oil Sands at the University of Alberta Department of Engineering with the top five oil companies in Canada, the regional water district, and various environmental agencies of the Canadian government. Our work is continually expanding into a number of commercial applications with a key focus on food processing, agriculture and oil and gas. We are also evaluating opportunities in the maritime industry, mining, storm drain recapture / recycling, and drinking water. It is an award-winning invention that is supported with science and engineering financial support and grants from various federal and provincial agencies in Canada. The financial support is expanding along with the work to develop commercially available designs. We believe the AOS Filter has an important and substantial commercial opportunity in every segment of the water treatment industry.

CupriDyne®

Our CupriDyne formula is used to deliver iodine within products. It can be delivered in any physical form, and can be combined with other ingredients, like fragrances in our odor control products, and primitive surfactants in our stain and odor products. Additional ingredients can often be added without sacrificing its practical and safe antimicrobial functions as well its oxidation potential. Our product designs include liquids, sprays, gels, powders, coatings and absorbents.

Safe and effective is the key. Each of our product designs delivers nature's broadest spectrum and most potent disinfectant – iodine – safely and precisely to achieve effective broad-spectrum disinfection, unsurpassed odor and moisture control, and effective and gentle wound healing. Our primary ingredients, as well as reaction by-products, are "generally recognized as safe" (G.R.A.S) by the U.S. Food and Drug Administration as food additives in their basic forms. Its commercial product opportunities are diverse and we have an extensive menu of product designs in various stages of commercialization and licensure development, discussed in detail below in the "Commercial, Household and Personal Care Products" section. We specialize in delivering iodine, nature's broadest spectrum and most potent disinfectant and essential nutrient, in safe, environmentally friendly, non-staining, non-toxic and effective product designs.

CupriDyne is unique. The iodine most of us are familiar with, sold in pharmacies and used by hospitals, has severe limitations – it is considered toxic, causes staining, and contains a limited dose of the active oxidizing ingredient. Our CupriDyne technology, on the other hand, directly addresses many of these shortcomings – it delivers iodine’s oxidizing ingredient (“free iodine”) with precision, ranging from very small doses up to very large doses with more than 20 times the power of traditional iodine. We can deliver iodine so that it is both non-toxic and non-staining, thus extending its usefulness well beyond historical product applications. Our formulations expand the functionality of our products well beyond simple disinfection.

Isan System

The Isan System is an automated iodine dosing system. It is the winner of a Top 50 Water Technology Award by the Artemis Project and a Dupont Innovation Award. Precise dosing combined with a straight-forward ‘set-it-and-forget-it’ automated computer controlled system is the key. The system features controlled measuring, flow control, dosing and iodine extraction/removal technology as well as an automatic tracking system that precisely delivers iodine in calibrated doses into a water stream or container of water. The Isan system has been proven to substantially reduce the incidence of fungal growth, spoilage, organisms and pathogens in water and on food. The system is able to operate at high flow rates.

First developed in Australia, the Isan system was initially registered with the APVMA (Australian Pesticides and Veterinary Medicines Authority) and FSANZ (Food Standards Australia and New Zealand) in Australia and New Zealand. The system has meaningful use and commercial value in any industry that can benefit from a precise use of iodine in water, like; agriculture, food production and processing, manufacturing, industrial water processes, irrigation supply.

Patent - an Expanding Intellectual Property Estate

We have 16 patents issued and multiple pending. We believe these patents provide a foundation from which to continue building our patent portfolio and we have reasonable basis upon which to rely on our patent protections in the field of art in which we practice. We also rely on trade secrets and technical know-how to establish and maintain additional protection of our intellectual property. As our capital resources permit, we expect to expand our patent protection as we continue to refine our inventions as well as make new discoveries. See the detailed discussion below of our patent portfolio.

Prove - a Continual Process

We have invested time and money in a wide array of third party testing, side-by-side comparisons and third party verifications to support our most important technical claims. The basic attributes of iodine are well understood by science and industry. We have evidence and experience to substantiate the following bold claims:

o AOS Filter- when compared to the best of class competition we are

100 times more effective

less than 1/20th the cost

more than 10 times faster

oCupriDyne

Generally Accepted As Safe (G.R.A.S.) – ingredients and by products are GRAS according to the FDA.

Broad spectrum disinfection (>99.9%)

Potent (less than 1/20th the dose of comparable disinfectant [like chlorine] to achieve similar results)

Total odor elimination

Non-toxic and gentle

Increases holding power of absorbents by up to six times

Promotes rapid healing (animal care products)

De-scaling

Eliminates Sulfur, Ammonia, Fatty Acids, Mercaptans

Enhanced flocculation

Nutritive

oIsan System

Precise iodine dosing

Anti-bacterial, anti-fungal, anti-viral

Effective against top five plant pathogens

Promotes extended shelf-life

Enhances root growth and foliage growth for healthier plants

Partner – a Smart Strategic Decision

We seek to develop commercial partnerships with other companies who will partner with us and pay us for a negotiated contractual right to use our intellectual property (patents, formulas, designs, claims, know-how, secrets), in order to expand their business for their own commercial purposes. In those instances, we seek a reasonable deposit, a minimum commitment to volume, some territorial rights, and a percentage of sales for a mutually agreeable term and territory. We believe this licensing model will prove successful and meaningful for our company.

We have chosen to focus on business opportunities that we believe have some combination of the following attributes: a compelling commercial advantage, our products out-perform competing products, market segments in which we have the talent and resources or opportunity to succeed in executing our business plans; and uses where we can identify a compelling cost savings or value offering to increase market share.

We choose to pursue a licensing strategy for its obvious and well-understood high margins, potential for explosive revenue potential and capital conserving features. While this business model can also be highly dependent upon macro-economic factors like the relative stability of the national and international economy as well as cyclical nature of business, politics and climate for innovation and competing technical advances, we believe this is the most appropriate strategy for our company. We have learned from difficult and real life experience. When our commercial licensing partners are under financial pressure from macro-economic and political circumstances, including reorganizations, recapitalization, or consolidation, they hold on to capital and are less likely to take any risk for new product offerings. Timing is critically important. Companies facing circumstances beyond their management's control are less likely to embrace any risk of innovation. Therefore, our time delays have negatively impacted our company by causing us to invest more capital, do more work, and advance our technology with nominal cash flow to support our work. However, while these delays have occurred and they were difficult, we have been able to maintain our operations, advance our scientific assets, build on our proven claims, refine our designs and we have continued to build a portfolio of both products and technology that we believe will ultimately enjoy meaningful commercial success.

While we have waited out many of the uncertainties of the macro-economic marketplace, we have advanced our commercial purposes and made investments in various aspects of product design, marketing and distribution, but only at an early stage and small level. In those instances, we consider these efforts to be a prelude to an ultimate licensing strategy. This strategy has been slower than we prefer. However, it has created a substantial level of diversification and breadth of potential revenue streams that we believe can and will generate meaningful revenues as they find traction in the marketplace. As we improve our access to capital, strengthen our balance sheet and can begin to generate meaningful cash flow, we believe those commercial opportunities will generate revenue for years to come as our products find their way into the marketplace.

In many situations, our potential licensing partners would prefer that we advance products all the way through proof of claim, manufacturing, market acceptance, well-established distribution and commercial success. While this is obvious, can be intriguing, and the relative benefits that would accrue to our valuation are clear, the risks of failure are equally high and this strategy would require substantially more capital than we have been able to secure during what many believe has been one of the most economically uncertain times in modern history. Therefore, we have chosen to invest our time and resources where we find leverage to move forward, knowing that our technical claims are proven, they are patented and that each product design has a high probability of success to find a partner and generate meaningful returns on our invested capital as our targeted licensing partners seek to deploy capital assets and begin taking advantage of our offering for their own commercial advancements.

Although our technology has commercial applications within many industries, we are focusing our efforts in four areas: water treatment; industrial odor control applications; commercial, household and personal care products ("CHAPP"); and "advanced wound care."

Within these broad categories, we also narrow our product focus to exploit opportunities that we believe are of high-value to potential customers and that present commercially significant opportunities.

We have a number of examples of strategic alliance or partnering initiatives whereby we are advancing both our science, our patents, our proof of claims, field trials and our commercial opportunities. There are a number of noteworthy examples:

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The University of Alberta

We are engaged in a cooperative research relationship with the University of Alberta and its researchers in Edmonton, Canada. The offices and lab of our Canadian subsidiary, and our staff researchers, are located within the University of Alberta research center at Discovery Place. We are able to utilize the extensive resources of the University and its researchers on a contract for hire basis as needed. We work closely with the Department of Agricultural, Food and Nutritional Science at the University of Alberta and its Department of Engineering, and partner with the University professors on government and industry sponsored financial awards and grants to support our ongoing research and development as we refine the AOS Filter in preparation of commercial pilots and commercial designs. Generally, the financial awards take on two common themes: first, science and engineering grants in which the University of Alberta is the primary recipient and contracting party with the grant agency to support work on and around our technology; and second, direct grants in which our Canadian subsidiary is the contracting party to support ongoing science and engineering to advance our AOS Filter towards commercialization, sometimes supporting the work of PhD students at the University. In both cases, the financial awards support much, but not all, of the research budget and related costs. Our research arrangement with the University has three high value propositions for BioLargo: (i) a depth of resources and talent to accomplish highly skilled work, (ii) financial aid to support research and development costs, and (iii) independent and credible validation of our technical claims. Grant revenue totaled \$99,122 during the year ended December 31, 2015

Clarion Water

On August 18, 2014, we entered into a manufacturing and distribution license agreement for our Isan® system with Clarion Water, a new operating division of InsulTech Manufacturing, LLC (www.insultech.com), the latter of which has over 20 years of commercial success around the globe representing hundreds of millions in sales of technical products to Fortune 100 companies.

Owned in equal parts by BioLargo, Inc. and Peter Holdings, Ltd. through a joint venture agreement, the Isan system leverages the power of iodine to provide the world's most effective disinfection dosing systems. It has been referred to as one of the most important technical advancements in food safety in the past 20 years. It won a 'top 50 water company award' by the Artemis Project in 2010 and a DuPont Innovation Award for its excellence in science and innovation in 2004.

The Isan system delivers Iodine as a powerful, broad-spectrum biocide that is a logical replacement for chlorine in applications involving irrigation supply and post-harvest sanitation. Through its automated and precise dosing system, the Isan system can help increase the quality and shelf life of fruits, vegetables, and other produce, is effective against a host of bacteria and fungi, and helps producers conform to increasingly stringent food safety regulations such as the Hazard Analysis and Critical Control Points (HACCP), which addresses food safety through the analysis and control of raw material hazards.

The Isan system has been validated through early stage commercialization and comprehensive testing conducted in Australia and New Zealand. Clarion intends to leverage this early work and focus initial commercialization efforts on the vast opportunities for the technology in improving plant quality and shelf life as well as explore additional opportunities for use in select industrial applications.

Per the terms of our license agreement, Clarion receives the exclusive global manufacturing and distribution rights to the Isan system and use of all historical data to support its commercial focus. Clarion will pay BioLargo royalties on revenue equal to 10% paid quarterly in arrears. As we jointly own the Isan System with Peter Holdings, Ltd., all royalties are shared equally with Peter Holdings. There are no minimum royalty payments for the first two years, but at year three (beginning July 1, 2016) the minimum royalties are \$50,000 per quarter, at year four \$75,000 per quarter, and at year five and onward \$100,000 per quarter. The intellectual property subject to the license agreement includes all intellectual property related to the Isan System, including all patents, trademarks, proprietary knowledge, and other similar know-how or rights relating to or arising out of the Isan System or the patents related to the Isan System. The agreement contains other terms and conditions typically found in intellectual property license agreements.

BioLargo received a royalty advance of \$100,000 upon execution of a letter of intent in February of 2014, which will be applied to royalties received during the first two years of the agreement. Of this advance, \$45,000 was paid to Peter Holdings under our joint venture agreement. BioLargo retains certain marketing rights to help develop clients for Clarion.

In February of 2015, Clarion Water introduced the new and improved Isan System at the world's largest agricultural trade show, the World AG Expo, as part of its commercial launch into the U.S. market.

Since licensing the technology from BioLargo last August, Clarion has completed a comprehensive technical and engineering update to the Isan System, featuring a new automated touch screen user interface, enhanced security, enhanced control features for increased monitoring and sensing, and adding automated functionality providing users unmatched flexibility, reliability and control over this state-of-the-art disinfectant delivery system, and begun commercial trials. In 2015, it filed application with the U.S. Environmental Protection Agency, which application is pending as of the date of this report.

Downeast Logistics

In late 2013, we entered into a cooperative selling and distribution agreement with Downeast Logistics, a certified “Service-Disabled Veteran-Owned Small Business” (SDVOSB), as our distribution partner to facilitate our first order to the US Government. Downeast has been instrumental in developing ongoing sales to the United States Military. We have six products with National Stocking Numbers. In March 2015 we secured a \$150,000 “Indefinite Delivery Purchase Order” (IDPO) for the purchase of our Specimen Transport Solidifier pouches by the U.S. Defense Logistics Agency (DLA). The purchase order allows the DLA to purchase the product at agreed-upon prices for the following 12 months. In exchange, the company is awarded the contract to be the exclusive supplier of the designated product under the IDPO. During the period of the contract, approximately \$30,000 in product was ordered.

In March 2016 two of our product lines (consisting of 9 SKUs) of Nature’s Best Science products were awarded a five year U.S. General Services Administration (GSA) supply contract, under schedule 65IIA for medical equipment and supplies. The award opens up access to these products through “GSA Advantage”, the online shopping and ordering system that provides government agencies access to thousands of contractors and millions of supplies (products) and services. We intend to apply for inclusion of additional existing and future products into GSA Advantage.

Downeast Logistics has operated for more than thirteen years, and will continue to offer our products through multiple channels of the US Government. Its designation as a SDVOSB places Downeast Logistics within a group of highly sought after vendors to the US government. Odor-No-More has registered, and is in the process of registering, itself as well as its products with several procurement agencies of the US Government.

Independent Sales Representatives

We have a number of independent representatives developing selling channels for our odor control products. We are in customer trials for our smoke-odor eliminating products. The response has been excellent and we have received the highest marks for performance that is superior to the competing products. We continue to support these selling efforts with samples, training, selling materials and competitive bulk pricing. While we cannot predict the timing or outcome of these efforts, we are confident in our products' ability to outperform the competition.

Industrial Odor Control - Cupridyne Clean

During 2015 we were invited by a number of potential customers to design a product for the industrial odor control industry segment and to begin trials for our "Cupridyne Clean" product for use as a cleaning and odor control product in large scale operations. We soon discovered multiple opportunities to serve the waste handling industry, waste-water treatment facilities, waste to energy conversion operations, materials recovery facilities, food processing operations, and livestock production facilities with Cupridyne Clean. We are highly encouraged by this early work, the response from customers and the welcome response from new prospects from industry. Since 2015, we have and continue to refine the product design, its claims and marketing and selling plans. Our product web site can be seen at www.cupridyne.com. Based on our test marketing and trials, we believe that many industries that must contend with odors that include, ammonia, fatty acids, sulfur, or mercaptans are dissatisfied with the current competing odor control products, place a high value on odor control solutions that actually work and are anxious to test and trial new products like our Cupridyne Clean as they search for a solution to these common and troublesome odor problems. We have been told by prospective customers and experts from these markets that effective odor control for these prospective customer groups is in among the top on a list of priorities in their daily operations and their commitment to serve their local communities where they operate. We intend to further develop our products, refine our free trial program that can be combined with a highly motivated customer service and sales program to help break open this market. We plan to attend industry conferences, join trade associations, advertise, and recruit leaders from these industries to help us refine, focus and break through to commercial success. While the success of these efforts cannot be assured, we are confident and highly encouraged to focus and invest time, energy, staff and capital in this area as resources permit.

Multinationals and Mid-Level Industry Participants

We began discussions with a number of multi-nationals as well as regional companies in 2014 that are continuing. This list expanded in 2015 and was highlighted by our technical symposium held in August 2015 where we had more than 30 attendees representing industry, academia and funding agencies. We have entered into technical non-disclosure agreements with a wide variety of companies to evaluate our AOS Filter and discuss potential strategic alliances. Many of these continue to monitor our technical progress and have expressed interest in the technology and potential strategic alliances as we finalize our commercially ready design. The claims we have put forth are well received. The focus of discussions in most cases has moved from efficacy, which is accepted, to a business case discussion relative to capital and time to market and the potential return on investment. While these discussions are ongoing, we continue to advance our science and proven claims. We are highly encouraged that our AOS Filter has an important role in commerce.

We believe there are a number of potential partners interested in working with us to exploit the commercial opportunities associated with the AOS Filter technology. These opportunities are limited by common and obvious limitations, capital, the relative state of development and market readiness and, adoption rates in the marketplace. Given the significant value offerings, namely enhanced performance and lower cost, we believe we will be able to find industry partners to assist in commercialization of the AOS Filter and are committed to pursue success in these markets.

Commercial, Household and Personal Care Products

CHAPP includes broad product categories and many opportunities for the application of our technology. It is defined by the ability to utilize similar, if not identical, consumption products in multiple market segments. Detergents, single use absorbents, wipes, products that provide odor or disinfection control, and stain removal all fall within this category. Packaging ranges from consumer sizes of a few ounces to bulk packaging for commercial or industrial use. We are currently marketing products in this category under four brands – Odor-No-More, Nature’s Best Solution, Deodorall, and NBS - direct to consumers, through retail stores, and most recently, to the U.S. Government.

We are continuing our efforts to generate “private label” clients. We have fulfilled some small orders for various products that we produced under a third party’s private brand. We are meeting with new potential customers for private label opportunities. We also are in discussions with potential strategic alliance partners to provide large scale manufacturing and distribution should we secure orders for the private label business opportunities. We have a few opportunities that could expand to become large customers for our company. Success in these markets is highly dependent upon the willingness of the potential partners to invest in product support to continue marketing and expanding customer awareness.

Our sales in the CHAPP product category are nominal. Product development, sales, and marketing require significant financial resources that we currently do not have. As such, our progress in this area has been slower than we had hoped. We