

NJ-SV, INC.  
Form S-4/A  
May 15, 2015

As filed with the Securities and Exchange Commission on May 14, 2015

Registration No. 333-200465

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**AMENDMENT NO. 3**  
**TO**  
**FORM S-4**  
**REGISTRATION STATEMENT**  
***UNDER***  
***THE SECURITIES ACT OF 1933***

**GROUP 1 AUTOMOTIVE, INC.**  
**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**

**5500**  
**(Primary Standard Industrial**

**76-0506313**  
**(IRS Employer**

**incorporation or organization)                      Classification Code Number)                      Identification Number)**

**800 Gessner, Suite 500**

**Houston, Texas 77024**

**(713) 647-5700**

**(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)**

**Darryl M. Burman**

**Vice President & General Counsel**

**800 Gessner, Suite 500**

**Houston, Texas 77024**

**(713) 647-5700**

**(Name, address, including zip code, and telephone number, including area code, of agent for service)**

*Copies to:*

**Gillian A. Hobson**

**Vinson & Elkins L.L.P.**

**1001 Fannin, Suite 2500**

**Houston, Texas 77002-6760**

**(713) 758-2222**

**Approximate date of commencement of proposed sale of the securities to the public:** As soon as practicable after the effective date of this Registration Statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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 the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issue Tender Offer) "

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer) "

- (1) Calculated pursuant to Rule 457(f)(2) under the Securities Act of 1933.
- (2) No separate consideration will be received for the Guarantees, and no separate fee is payable pursuant to Rule 457(a) of the rules and regulations under the Securities Act of 1933.

**Each registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**



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**ADDITIONAL REGISTRANT GUARANTORS**

<b>Exact Name of Registrant Guarantor(1)</b>	<b>State or Other Jurisdiction of Incorporation or Organization</b>	<b>IRS Employer Identification Number</b>
Advantagecars.com, Inc.	Delaware	45-0581106
Amarillo Motors-F, Inc.	Delaware	75-2804528
Baron Development Company, LLC	Kansas	48-1211804
Baron Leasehold, LLC	Kansas	48-1211804
Bob Howard Automotive-East, Inc.	Oklahoma	73-1511394
Bob Howard Chevrolet, Inc.	Oklahoma	73-1329605
Bob Howard Dodge, Inc.	Oklahoma	73-1494123
Bob Howard Motors, Inc.	Oklahoma	73-1370828
Bob Howard Nissan, Inc.	Oklahoma	73-1524179
Bohn Holdings, Inc.	Delaware	02-0687995
Bohn Holdings, LLC	Delaware	02-0688180
Bohn-FII, LLC	Delaware	30-0015852
Chaperral Dodge, Inc.	Delaware	75-2807212
Danvers-N, Inc.	Delaware	46-0488420
Danvers-NII, Inc.	Delaware	73-1650142
Danvers-S, Inc.	Delaware	74-2938756
Danvers-SB, Inc.	Delaware	20-2558430
Danvers-SU, LLC	Delaware	74-2938757
Danvers-T, Inc.	Delaware	74-2931798
Danvers-TII, Inc.	Delaware	46-0481783
Danvers-TIII, Inc.	Delaware	20-0632215
Danvers-TL, Inc.	Delaware	74-2938758
FMM, Inc.	California	95-2913972
G1R Florida, LLC	Delaware	26-0609879
G1R Mass, LLC	Delaware	76-0632149
GPI AL-N, Inc.	Delaware	20-5006515
GPI AL-SB, LLC	Delaware	20-5006515
GPI CA-DMII, Inc.	Delaware	26-1232377
GPI CA-F, Inc.	Nevada	46-4159902
GPI CA-NIII, Inc.	Delaware	20-4777121
GPI CA-SH, Inc.	Nevada	46-4147553
GPI CA-SV, Inc.	Delaware	45-2282204
GPI CA-TII, Inc.	Delaware	20-4777289
GPI CC, Inc.	Delaware	45-3260089
GPI FL-A, LLC	Nevada	46-5635686
GPI FL-H, LLC	Delaware	82-0573686
GPI FL-VW, LLC	Delaware	45-5263147
GPI FL-VWII, LLC	Delaware	45-5303735
GPI GA Holdings, Inc.	Delaware	46-1276149
GPI GA Liquidation, LLC	Delaware	46-1276149
GPI GA-CGM, LLC	Nevada	46-4065637
GPI GA-DM, LLC	Delaware	26-0868772
GPI GA-F, LLC	Delaware	58-1092802

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GPI GA-FII, LLC  
GPI GA-FIII, LLC  
GPI GA-FM, LLC

Delaware  
Delaware  
Nevada

58-2436391  
46-4060022  
46-4074549

<b>Exact Name of Registrant Guarantor(1)</b>	<b>State or Other Jurisdiction of Incorporation or Organization</b>	<b>IRS Employer Identification Number</b>
GPI GA-FV, LLC	Nevada	46-1276149
GPI GA-SU, LLC	Nevada	46-4089193
GPI GA-T, LLC	Delaware	76-0646121
GPI GA-TII, LLC	Nevada	46-4103320
GPI KS Motors, Inc.	Delaware	45-4566983
GPI KS-SB, Inc.	Delaware	20-5840277
GPI KS-SH, Inc.	Delaware	45-4150367
GPI KS-SK, Inc.	Delaware	45-4150516
GPI LA-FII, LLC	Delaware	02-0688180
GPI LA-SH, LLC	Delaware	02-0688180
GPI MD-SB, Inc.	Delaware	26-1954592
GPI MS-H, Inc.	Delaware	20-5006463
GPI MS-N, Inc.	Delaware	20-5006401
GPI MS-SK, Inc.	Delaware	20-5006315
GPI NH-T, Inc.	Delaware	20-3665557
GPI NH-TL, Inc.	Delaware	20-3939903
GPI NY Holdings, Inc.	Nevada	46-5147937
GPI NY-DM, LLC	Nevada	26-0870713
GPI NY-FV, LLC	Nevada	20-1152969
GPI NY-SB, LLC	Nevada	20-1152998
GPI OK-HII, Inc.	Nevada	46-3268295
GPI OK-SH, Inc.	Delaware	46-0913134
GPI SAC-T, Inc.	Delaware	20-0737962
GPI SC, Inc.	Delaware	27-4460104
GPI SC Holdings, Inc.	Delaware	27-1961791
GPI SC-A, LLC	Delaware	27-1961791
GPI SC-SB, LLC	Delaware	26-0868355
GPI SC-SBII, LLC	Delaware	27-1961791
GPI SC-T, LLC	Delaware	27-1961791
GPI SD-DC, Inc.	Delaware	20-0738328
GPI TX-ARGMIII, Inc.	Nevada	46-3606928
GPI TX-DMII, Inc.	Nevada	46-5202539
GPI TX-EPGM, Inc.	Delaware	45-1795973
GPI TX-F, Inc.	Delaware	45-1795677
GPI TX-FII, Inc.	Delaware	45-3555253
GPI TX-HGM, Inc.	Delaware	45-2780219
GPI TX-HGMII, Inc.	Nevada	46-3514961
GPI TX-NVI, Inc.	Nevada	46-3617927
GPI TX-SBII, Inc.	Delaware	27-5135196
GPI TX-SBIII, Inc.	Nevada	46-3602146
GPI TX-SHII, Inc.	Delaware	45-4557518
GPI TX-SK, Inc.	Delaware	46-2015406
GPI TX-SKII, Inc.	Nevada	46-4624358
GPI TX-SV, Inc.	Delaware	26-4427703
GPI TX-SVII, Inc.	Delaware	45-3036400
GPI TX-SVIII, Inc.	Delaware	45-3838676
GPI, Ltd.	Texas	76-0625642

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Group 1 Associates Holdings, LLC	Delaware	20-3046191
Group 1 Associates, Inc.	Delaware	51-0390227
Group 1 FL Holdings, Inc.	Delaware	82-0573686
Group 1 Funding, Inc.	Delaware	20-2066890



<b>Exact Name of Registrant Guarantor(1)</b>	<b>State or Other Jurisdiction of Incorporation or Organization</b>	<b>IRS Employer Identification Number</b>
Group 1 Holdings-DC, L.L.C.	Delaware	52-2203214
Group 1 Holdings-F, L.L.C.	Delaware	52-2203228
Group 1 Holdings-GM, L.L.C.	Delaware	52-2203229
Group 1 Holdings-H, L.L.C.	Delaware	52-2203230
Group 1 Holdings-N, L.L.C.	Delaware	52-2203232
Group 1 Holdings-S, L.L.C.	Delaware	52-2203234
Group 1 Holdings-T, L.L.C.	Delaware	52-2203236
Group 1 LP Interests-DC, Inc.	Delaware	51-0379880
Group 1 Realty, Inc.	Delaware	76-0632149
Harvey Ford, LLC	Delaware	52-2200134
Harvey GM, LLC	Delaware	74-2931595
Harvey Operations-T, LLC	Delaware	52-2203237
Howard-DCIII, LLC	Delaware	20-1838899
Howard-GM II, Inc.	Delaware	73-1613234
Howard-GM, Inc.	Delaware	73-1577853
Howard-H, Inc.	Delaware	73-1577855
Howard-HA, Inc.	Delaware	73-1577856
Howard-SB, Inc.	Delaware	46-0470107
Ira Automotive Group, LLC	Delaware	74-2940277
Ivory Auto Properties of South Carolina, LLC	South Carolina	20-8432044
Key Ford, LLC	Delaware	59-1168670
Kutz-N, Inc.	Delaware	75-1905979
Lubbock Motors, Inc.	Delaware	75-2822208
Lubbock Motors-F, Inc.	Delaware	75-2804514
Lubbock Motors-GM, Inc.	Delaware	20-0284194
Lubbock Motors-S, Inc.	Delaware	75-2868766
Lubbock Motors-SH, Inc.	Delaware	75-2859295
Lubbock Motors-T, Inc.	Delaware	75-2804659
Maxwell Ford, Inc.	Delaware	74-2884783
Maxwell-GMII, Inc.	Delaware	74-1061940
Maxwell-N, Inc.	Delaware	74-2360462
Maxwell-NII, Inc.	Delaware	76-0513858
McCall-F, Inc.	Delaware	27-4460429
McCall-H, Inc.	Delaware	76-0237540
McCall-HA, Inc.	Delaware	76-0173063
McCall-N, Inc.	Delaware	46-0478546
McCall-SB, Inc.	Delaware	20-1041115
McCall-T, Inc.	Delaware	74-1649754
McCall-TII, Inc.	Delaware	76-0654109
McCall-TL, Inc.	Delaware	76-0270456
Mike Smith Automotive-H, Inc.	Delaware	76-0603178
Mike Smith Automotive-N, Inc.	Texas	76-0566784
Mike Smith Autoplaza, Inc.	Texas	76-0202396
Mike Smith Autoplex Dodge, Inc.	Texas	76-0566783
Mike Smith Autoplex, Inc.	Texas	76-0561393
Mike Smith Autoplex-German Imports, Inc.	Texas	76-0566786
Mike Smith Imports, Inc.	Texas	76-0586800

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Millbro, Inc.	California	95-4676240
Miller Automotive Group, Inc.	California	95-4261521
Miller Family Company, Inc.	California	95-4585358

<b>Exact Name of Registrant Guarantor(1)</b>	<b>State or Other Jurisdiction of Incorporation or Organization</b>	<b>IRS Employer Identification Number</b>
Miller Infiniti, Inc.	California	95-4229913
Miller Nissan, Inc.	California	95-1912506
Miller-DM, Inc.	Delaware	20-1055954
NJ-DM, Inc.	Delaware	20-0411389
NJ-H, Inc.	Delaware	20-0411305
GPI NJ-HA, LLC	Nevada	20-4920026
NJ-HAII, Inc.	Delaware	20-4920115
GPI NJ-HII, LLC	Nevada	20-4919976
GPI NJ-SB, LLC	Nevada	20-4920063
NJ-SV, Inc.	Delaware	20-0411329
Rockwall Automotive-DCD, Ltd.	Texas	76-0659030
Rockwall Automotive-F, Inc.	Delaware	75-2804507
Tate CG, L.L.C.	Maryland	52-1931345

- (1) The address for each Registrant Guarantor is 800 Gessner, Suite 500, Houston, Texas 77024 and the telephone number for each Registrant Guarantor is (713) 647-5700.

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**PART II**

**INFORMATION NOT REQUIRED IN PROSPECTUS**

**Item 20. Indemnification of Directors and Officers.  
Group 1 Automotive, Inc.**

*Delaware*

Section 145(a) of the General Corporation Law of the State of Delaware (the "DGCL"), which Group 1 Automotive, Inc. is subject to, provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful. Section 145(b) of the DGCL provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper. To the extent that a present or former director or officer of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in subsections (a) and (b) of Section 145 of the DGCL, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

Any indemnification under subsections (a) and (b) of Section 145 of the DGCL (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the present or former director, officer, employee or agent is proper in the circumstances because the person has met the applicable standard of conduct set forth in subsections (a) and (b) of Section 145. Such determination shall be made, with respect to a person who is a director or officer at the time of such determination, (1) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, or (2) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, or (3) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (4) by the stockholders. Expenses (including attorneys' fees) incurred by an officer or director in defending any civil, criminal, administrative or investigative action, suit or proceeding may be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the

corporation as authorized in this section. Such expenses (including attorneys' fees) incurred by former directors and officers or other employees and agents may be so paid upon such terms and conditions, if any, as the corporation deems appropriate. The indemnification and

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advancement of expenses provided by, or granted pursuant to, Section 145 shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office.

Section 145 of the DGCL also empowers a corporation to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the corporation would have the power to indemnify such person against such liability under Section 145.

Article Six, Part II, of our Restated Certificate of Incorporation provides that directors, officers, employees and agents shall be indemnified to the fullest extent permitted by the DGCL. Section 6.1 of Group 1 Realty, Inc.'s Bylaws provides that directors, officers, employees and agents shall be indemnified to the fullest extent permitted by the DGCL.

We entered into an indemnification agreement with each of our directors and certain of our executive officers. The indemnification agreements provide that we indemnify each of our directors and certain of our executive officers to the fullest extent permitted by the DGCL. This means, among other things, that we must indemnify the indemnitee against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement that are actually and reasonably incurred in an action, suit or proceeding by reason of the fact that the person is or was a director, officer, employee or agent of Group 1 or is or was serving at the request of Group 1 as a director, officer, employee or agent of another corporation or other entity if the indemnitee acted in good faith and, in the case of conduct in his or her official capacity, in a manner he or she reasonably believed to be in the best interests of Group 1 and, in all other cases, not opposed to the best interests of Group 1. Also, the indemnification agreements require that we advance expenses in defending such an action provided that the indemnitee undertakes to repay the amounts if the person ultimately is determined not to be entitled to indemnification.

In general, the disinterested directors on the board of directors or a committee of the board of directors designated by majority vote of the board of directors have the authority to determine an indemnitee's right to indemnification. However, such determination may also be made by (i) if there are no such directors, or if such directors so direct, independent legal counsel in a written opinion or (ii) the stockholders.

All agreements and obligations of Group 1 contained in the indemnification agreements with our directors and certain of our executive officers (i) continue during the period the indemnitee is a director or officer of Group 1 (or is or was serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, limited liability company or other enterprise) and (ii) continue thereafter so long as the indemnitee is subject to any possible proceeding for which the indemnitee is entitled to indemnification (notwithstanding the fact that the indemnitee has ceased to serve Group 1).

We carry directors and officers liability coverages designed to insure our officers and directors and those of our subsidiaries against certain liabilities incurred by them in the performance of their duties, and also providing for reimbursement in certain cases to us and our subsidiaries for sums paid to directors and officers as indemnification for similar liability.

Additionally, Section 18-108 of the Delaware Limited Liability Company Act provides that, subject to such standards and restrictions, if any, as are set forth in its limited liability company agreement, a limited liability company may, and shall have the power to, indemnify and hold harmless any member or manager or other person from and against any and all claims and demands whatsoever. The limited liability company agreement of each Delaware limited liability

company that is a registrant hereunder provides generally for the indemnification of the members of each respective limited liability company.

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The general effect of the foregoing is to provide indemnification to officers and directors for liabilities that may arise by reason of their status as officers or directors, other than liabilities arising from willful or intentional misconduct, acts or omissions not in good faith, unlawful distributions of corporate assets or transactions from which the officer or director derived an improper personal benefit.

### *Texas*

Pursuant to Section 1.106 of the Texas Business Organizations Code (the "TBOC"), the indemnification provisions set forth in the TBOC are applicable to most entities established in the state of Texas, including corporations, limited liability companies and limited partnerships.

Pursuant to Section 8.051 of the TBOC, an enterprise must indemnify a governing person, former governing person or delegate against reasonable expenses actually incurred by the person in connection with a proceeding in which the person was a respondent because the person is or was a governing person if the person is wholly successful, on the merits or otherwise, in the defense of the proceeding. Pursuant to Sections 8.101 and 8.102 of the TBOC, any governing person, former governing person or delegate of a Texas enterprise may be indemnified against judgments and reasonable expenses actually incurred by the person in connection with a proceeding, in which such person was a respondent if it is determined, in accordance with Section 8.103 of the TBOC, that: (i) the person acted in good faith, (ii) reasonably believed (a) in the case of conduct in the person's official capacity, that the person's conduct was in the enterprise's best interests or (b) in any other case, that the person's conduct was not opposed to the enterprise's best interests, (iii) in the case of a criminal proceeding, such person did not have a reasonable cause to believe that the person's conduct was unlawful and (iv) that the indemnification should be paid. Indemnification of a person who is found to be liable to the enterprise is limited to reasonable expenses actually incurred by the person in connection with the proceeding and does not include judgments, penalties or fines, except for certain circumstances where indemnification cannot be given at all. Pursuant to Section 8.105 of the TBOC, an enterprise may indemnify an officer, employee or agent to the same extent that indemnification is required under the TBOC for a governing person or as provided in the enterprise's governing documents, general or specific action of the enterprise's governing authority, contract or by other means.

The limited partnership agreement of each Texas limited partnership that is a registrant hereunder (the "Texas LP Registrants") provides that the Texas LP Registrant, its receiver, or its trustee, shall indemnify, hold harmless, and pay all judgments and claims against its general partner relating to any liability or damage incurred or suffered by its general partner by reason of any act performed or omitted to be performed by its general partner or its agents or employees in connection with such Texas LP Registrant's business, including reasonable attorneys' fees incurred by its general partner in connection with the defense of any claim or action based on any such act or omission, except to the extent indemnification is prohibited by law. Such liability or damage caused by its general partner's acts or omissions in connection with such Texas LP Registrant's business includes but is not limited to all liabilities under federal and state securities laws and any attorneys' fees incurred by its general partner in connection with the defense of any action based on such acts or omissions, which attorneys' fees may be paid as incurred. Any indemnification required to be made by a Texas LP Registrant will be made promptly following the fixing of any loss, liability or damage incurred or suffered. If, at any time, a Texas LP Registrant has insufficient funds to provide such indemnification, it will provide such indemnification if and as the Texas LP Registrant generates sufficient funds, and prior to any distribution to its partners.

The general effect of the foregoing is to provide indemnification to officers and directors for liabilities that may arise by reason of their status as officers or directors, other than liabilities arising from willful or intentional misconduct, acts or omissions not in good faith, unlawful distributions of corporate assets or transactions from which the officer or director derived an improper personal benefit.



Under the provisions of Chapter 8 of the TBOC, and the bylaws of each Texas corporation that is a registrant hereunder (the Texas Incorporated Registrants ), a Texas Incorporated Registrant may indemnify its

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directors, officers, employees and agents and purchase and maintain liability insurance for those persons. Chapter 8 of the TBOC provides that any director or officer of a Texas corporation may be indemnified against judgments, penalties, fines, settlements and reasonable expenses actually incurred by him in connection with or in defending any action, suit or proceeding in which he is a party by reason of his position. With respect to any proceeding arising from actions taken in his official capacity as a director or officer, he may be indemnified so long as it shall be determined that he conducted himself in good faith and that he reasonably believed that such conduct was in the corporation's best interests. In cases not concerning conduct in his official capacity as a director or officer, a director may be indemnified as long as he reasonably believed that his conduct was not opposed to the corporation's best interests. In the case of any criminal proceeding, a director or officer may be indemnified if he had no reasonable cause to believe his conduct was unlawful. If a director or officer is wholly successful, on the merits or otherwise, in connection with such a proceeding, such indemnification is mandatory.

The articles of incorporation of each Texas Incorporated Registrant provide for indemnification of its directors to the full extent permitted by applicable law. The bylaws provide, in general, that it will indemnify its directors under the circumstances permitted under the TBOC. If Texas law is amended to authorize the further elimination or limitation of directors' liability, then the liability of our directors will automatically be limited to the fullest extent provided by law.

### *California*

Section 317 of the California General Corporation Law ( CAGCL ) authorizes a court to award, or a corporation to grant, indemnity to officers, directors and other agents for reasonable expenses incurred in connection with the defense or settlement of an action by or in the right of the corporation or in a proceeding by reason of the fact that the person is or was an officer, director, or agent of the corporation. Indemnity is available where the person party to a proceeding or action acted in good faith and in a manner reasonably believed to be in the best interests of the corporation and its shareholders and, with respect to criminal actions, had no reasonable cause to believe his conduct was unlawful. To the extent a corporation's officer, director or agent is successful on the merits in the defense of any proceeding or any claim, issue or related matter, that person shall be indemnified against expenses actually and reasonably incurred. Under Section 317 of the CAGCL, expenses incurred in defending any proceeding may be advanced by the corporation prior to the final disposition of the proceeding upon receipt of any undertaking by or on behalf of the officer, director, employee or agent to repay that amount if it is ultimately determined that the person is not entitled to be indemnified. Indemnifications are to be made by a majority vote of a quorum of disinterested directors, or by approval of members not including those persons to be indemnified, or by the court in which such proceeding is or was pending upon application made by either the corporation, the agent, the attorney, or other person rendering services in connection with the defense. The indemnification provided by Section 317 is not exclusive of any other rights to which those seeking indemnification may be entitled.

### *Kansas*

The Kansas Revised Limited Liability Company Act, K.S.A. 17-7662 et seq., as amended, provides in K.S.A. 17-7670(a) that subject to such standards and restrictions, if any, as are set forth in its operating agreement, a limited liability company may, and shall have the power to, indemnify and hold harmless any member or manager or other person from and against any and all claims and demands whatsoever. Further, K.S.A. 17-7670(b) provides that to the extent that a present or former member, manager, officer, employee or agent of a limited liability company has been successful on the merits or otherwise as a plaintiff in an action to determine that the plaintiff is a member of a limited liability company or in defense of any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a member, manager, officer, employee or agent of the limited liability company, or is or was serving at the request of the limited liability company as a member, manager, director, officer, employee or agent of another limited liability company, corporation, partnership, joint venture, trust or other enterprise, or in defense of any claim, issue or matter therein, such member, manager, officer, employee or agent shall be

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indemnified by the limited liability company against expenses actually and reasonably incurred by such person in connection therewith, including attorney fees.

The Amended and Restated Operating Agreements of Baron Development Company, LLC and Baron Leasehold, LLC provide that each company may indemnify any person who was or is a party defendant or is threatened to be made a party defendant to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative (other than an action by or in the right of the Company) by reason of the fact that he is or was a member of the company, manager, officer, employee or agent of the company, or is or was serving at the request of the Company, against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if the member of the company determines that the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interest of the company, and with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit, or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not in itself create a presumption that the person did or did not act in good faith and in a manner which he reasonably believed to be in the best interest of the company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful. Each company shall fund its indemnification described above in such manner and to such extent as the member of the company may deem proper.

### ***Maryland***

The Amended and Restated Operating Agreement (the Operating Agreement) of the Maryland limited liability company that is a guarantor (the Maryland Guarantor) provides that to the full extent permitted by S.C. Code Ann. § 33-44-303, all members are released from liability for damages and other monetary relief on account of any act, omission, or conduct in the member's managerial capacity. Under the Operating Agreement, the Maryland Guarantor may indemnify any person who was or is a party defendant or is threatened to be made a party defendant to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative (other than an action by or in the right of the Maryland Guarantor) by reason of the fact that he is or was a member of the Maryland Guarantor, manager, officer, employee or agent of the Maryland Guarantor, or is or was serving at the request of the Maryland Guarantor, against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if the member determines that he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interest of the Maryland Guarantor, and with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, does not in itself create a presumption that the person did or did not act in good faith and in a manner which he reasonably believed to be in the best interest of the Maryland Guarantor, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

### ***Nevada***

The Nevada Revised Statutes permits the indemnification of directors, employees, officers and agents of Nevada corporations. The applicable Bylaws for each of the registrants incorporated in Nevada (the Nevada Corporate Guarantors) provide that we will indemnify our directors and officers to the fullest extent permitted by the laws of the State of Nevada.

Subsection 7 of Section 78.138 of the Nevada Revised Statutes provides that, subject to certain very limited statutory exceptions, a director or officer is not individually liable to the corporation or its shareholders or creditors for any damages as a result of any act or failure to act in his or her capacity as a director or officer, unless it is proven that the act or failure to act constituted a breach of his or her fiduciary duties as a director or officer and such breach of those

duties involved intentional misconduct, fraud or a knowing violation of law. The

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statutory standard of liability established by Section 78.138 controls unless a provision in the corporation's articles of incorporation provides for greater individual liability.

Subsection 1 of Section 78.7502 of the Nevada Revised Statutes empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he or she is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise (any such person, a Covered Person), against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the Covered Person in connection with such action, suit or proceeding if the Covered Person is not liable pursuant to Section 78.138 of the Nevada Revised Statutes or the Covered Person acted in good faith and in a manner the Covered Person reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceedings, had no reasonable cause to believe the Covered Person's conduct was unlawful.

Subsection 2 of Section 78.7502 of the Nevada Revised Statutes empowers a corporation to indemnify any Covered Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person acted in the capacity of a Covered Person against expenses, including amounts paid in settlement and attorneys' fees actually and reasonably incurred by the Covered Person in connection with the defense or settlement of such action or suit, if the Covered Person is not liable pursuant to Section 78.138 of the Nevada Revised Statutes or the Covered Person acted in good faith and in a manner the Covered Person reasonably believed to be in or not opposed to the best interests of the Corporation. However, no indemnification may be made in respect of any claim, issue or matter as to which the Covered Person shall have been adjudged by a court of competent jurisdiction (after exhaustion of all appeals) to be liable to the corporation or for amounts paid in settlement to the corporation unless and only to the extent that the court in which such action or suit was brought or other court of competent jurisdiction determines upon application that in view of all the circumstances the Covered Person is fairly and reasonably entitled to indemnity for such expenses as the court deems proper.

Section 78.7502 of the Nevada Revised Statutes further provides that to the extent a Covered Person has been successful on the merits or otherwise in the defense of any action, suit or proceeding referred to in Subsection 1 or 2, as described above, or in the defense of any claim, issue or matter therein, the corporation shall indemnify the Covered Person against expenses (including attorneys' fees) actually and reasonably incurred by the Covered Person in connection with the defense.

Subsection 1 of Section 78.751 of the Nevada Revised Statutes provides that any discretionary indemnification pursuant to Section 78.7502 of the Nevada Revised Statutes, unless ordered by a court or advanced pursuant to Subsection 2 of Section 78.751, may be made by a corporation only as authorized in the specific case upon a determination that indemnification of the Covered Person is proper in the circumstances. Such determination must be made (a) by the shareholders, (b) by the board of directors of the corporation by majority vote of a quorum consisting of directors who were not parties to the action, suit or proceeding, (c) if a majority vote of a quorum of such non-party directors so orders, by independent legal counsel in a written opinion, or (d) by independent legal counsel in a written opinion if a quorum of such non-party directors cannot be obtained.

Subsection 2 of Section 78.751 of the Nevada Revised Statutes provides that a corporation's articles of incorporation or bylaws or an agreement made by the corporation may require the corporation to pay as incurred and in advance of the final disposition of a criminal or civil action, suit or proceeding, the expenses of officers and directors in defending such action, suit or proceeding upon receipt by the corporation of an undertaking by or on behalf of the officer or director to repay the amount if it is ultimately determined by a court of competent jurisdiction that he or she is not entitled to be indemnified by the corporation. Subsection 2 of Section 78.751

**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.

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.

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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.

**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 (USPTO) and two additional patent applications filed under the International Patent Cooperation Treaty (PCT). 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.



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*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;

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intellectual property matters;

the absence of litigation and proceedings;

compliance with laws; and

limitations on the resale of the IOWC Shares in accordance with securities laws

The Asset Purchase Agreement also contains additional representations and warranties of Mr. Code and/or IOWC, and of the Company, standard for asset purchase transactions required to be publicly disclosed by reporting companies.

The representations and warranties of the parties contained in the Asset Purchase Agreement will survive for four years after the closing at which time they will expire.

*Indemnification.* Under the Asset Purchase Agreement, IOWC and Mr. Code have agreed, jointly and severally, to indemnify the Company and each of its officers, directors, employees, agents and affiliates, and each of their successors and assigns from and against any and all costs, losses, claims, liabilities, fines, penalties, consequential damages (other than lost profits), and expenses (including interest which may be imposed in connection therewith and court costs and reasonable fees and disbursements of counsel) incurred in connection with, arising out of, resulting from or incident to:

liabilities or claims arising out of the assets or the business of IOWC before the closing;

liabilities or claims after the closing relating to IOWC or Mr. Code;

breach of the representations or warranties made by IOWC or Mr. Code;

default in any agreements made by IOWC or Mr. Code;

taxes of any kind 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.

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**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 \$184,000 annually (with an automatic 10% annual increase); and (ii) a bonus in such amount as the Compensation Committee of the Board of Directors of the Company (the Compensation Committee) may determine from time to time. In addition, Mr. Code will be eligible to participate in incentive plans, stock option plans, and similar arrangements as determined by the Company's Board of Directors. When such benefits are made available to the senior employees of the Company, Mr. Code is also eligible to receive health insurance premium payments for himself and his immediate family, a car allowance of \$800 per month, paid vacation of four weeks per year plus an additional two weeks per year for each full year of service during the term of the agreement up to a maximum of ten weeks per year, life insurance equal to three times his base salary and disability insurance. The Code Employment Agreement has a term of five years, unless earlier terminated in accordance with its terms.

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 BioLargo and BLTI.

**Calvert Employment Agreement**

In connection with the closing of the acquisition of the BioLargo technology, the Company also entered into a new employment agreement with Dennis Calvert, the Company's President and Chief Executive Officer. (See Note 8.)

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**Note 3. Sale of Unregistered Securities**

**Fall 2006 Offering**

Pursuant to a private offering that commenced in September 2006 (the Fall 2006 Offering ) and terminated in April 2007, the Company offered up to \$1,000,000 of its convertible notes (the Fall 2006 Notes ), which are due and payable on September 13, 2008. Interest will accrue monthly and be paid annually on the Fall 2006 Notes, 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, stock purchase warrants (the Fall 2006 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 investor's Fall 2006 Note is convertible. The Fall 2006 Warrants are 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 on the Maturity Date or may be converted, at the sole option of the Company, into shares of the Company's common stock, on the Maturity Date.

From September 13, 2006 through March 31, 2007, the Company received gross and net proceeds of \$808,000 from 37 investors and issued Fall 2006 Notes which allow conversion into an aggregate of 1,175,288 shares of the Company's common stock and Warrants exercisable for the same number of shares of the Company's common stock into which the Fall 2006 Notes are convertible.

The Fall 2006 Notes have not been converted and remain outstanding.

**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 \$30,710, which included \$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



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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.

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, on December 31, 2005, the Company sold an aggregate amount of \$299,500 of its promissory notes (the Third Offering Notes ) due and payable January 31, 2007 to twelve individual investors. Each Third Offering Note bears interest at a rate of 10% per annum, and can be converted, in whole or in part, into shares of the common stock of the Company at an initial exercise price of \$0.625 per share, as adjusted to reflect the Reverse Split. Purchasers of the Third Offering Notes also received, for no additional consideration, a warrant (the Third Offering Warrant ) entitling the holder to purchase a number of shares of the Company's common stock equal to the number of shares of common stock into which the Third Offering Note is convertible. The Third Offering Warrant is exercisable at an initial exercise price of \$1.25 per share, as adjusted to reflect the Reverse Split, and expires on January 31, 2008. The Company sold additional notes under this offering subsequent to December 31, 2005.

On March 6, 2006, the Company issued additional notes from its private 2005 Third Offering, in the aggregate principal amount of \$802,500, due and payable January 31, 2007, to 44 individual investors. Of this amount \$777,500 gross and net proceeds were received in 2006, and the balance had been received in 2005.

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 principle 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. Accounts Payable and Accrued Expenses**

Accounts Payable and Accrued Expenses included the following:

	December 31, 2006	March 31, 2007	Proforma March 31, 2007 (see Note 8)
Accounts payable	\$ 32,305	\$ 32,305	\$ 32,305
Accrued expense	746,963	694,240	150,819

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Accrued interest	923,472	698,864	401,726
Officer payable	337,736		
Board of Director payable	270,963	11,500	11,500
Total Accrued Expenses	\$ 2,311,500	\$ 1,436,909	\$ 596,350



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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.

On March 21, 2007, the Company converted \$986,420 of Accounts Payable and Accrued Expenses into shares of the Company's common stock at various conversion rates. Of this amount (i) \$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; (ii) \$196,875 related to consulting services, which were converted into 525,000 shares of the Company's common stock at \$0.375 per share. An expense totaling \$65,625 was recorded in the three-month period ended March 31, 2007 in connection with (ii) as the conversion common stock price was less than the market price of the Company's common stock at the date of conversion; and (iii) \$543,421 related to consulting services, which were converted into an aggregate of 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. The stock certificates for the conversion in (iii) were delivered to the consultants after March 31, 2007, and thus \$543,421 of the converted accrued payables remain on the balance sheet at March 31, 2007. (See Note 8.)

**Note 5. Extension of Augustine Loan**

On October 18, 2006, the Company and Augustine Fund agreed to further extend the maturity date of the Augustine Loan to May 1, 2007.

The Company recorded interest expense of \$25,514 for the three-month period ended March 31, 2007 and \$21,831 for the three-month period ended March 31, 2006.

As of March 31, 2007, the principal amount of the loan of \$420,000, together with \$294,042 in accrued but unpaid interest, had not been repaid. On April 11, 2007, the Augustine Fund elected to convert this obligation into shares of our common stock. (See Note 8.)

**Note 6. Related Party Transactions**

**New Millennium**

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

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

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As of March 31, 2007, the principal amount of the note, together with \$377,408 in accrued but unpaid interest, had not been repaid. (See Note 8.) On April 13, 2007, New Millennium converted the \$900,000 principal amount of the New Millennium Note into 1,636,364 shares of our common stock. The New Millennium Note had a maturity date of January 15, 2008. 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 2008. No additional interest will be accrued on this obligation.

**Note 7. 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 of a former provider of professional services into a promissory note, which accrues interest at 5% per annum. As of March 31, 2007 the principal amount of the note, together with \$3,237 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 principle 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 8. Subsequent Events**

The proforma balance sheet gives effect to certain major transactions that took place subsequent to March 31, 2007 as if those transactions were consummated at March 31, 2007, without consideration to recording a charge to expense of \$134,041 related to additional costs incurred related to converting certain account payable obligations based on the market price of the Company's common stock at the date of conversion, which will be recorded in the second quarter of 2007, as follows:

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(UNAUDITED)

**Shares Issued for Consulting Services**

On March 21, 2007 the Company converted an aggregate \$740,296 of accrued payables to thirteen of its current or former consultants into an aggregate of 1,803,615 shares of the Company's common stock. The conversion is described in the preceding sentence were effected at various prices ranging from \$0.20 to \$0.625 per share. Of the \$740,296 converted, \$645,296 was for services performed prior to December 31, 2006, and the remaining \$95,000 was for services performed in 2007. Of the 1,803,615 shares issued, (i) 525,000 shares of common stock were issued during the quarter ended March 31, 2007, leaving \$543,421 of accrued payables on the balance sheet as of such date, and (ii) the balance of 1,278,615 shares were issued during the quarter ending June 30, 2007.

The Company recorded an additional non-cash interest expense of \$134,031 related to the conversion of the foregoing payables, because the conversion common stock price was less than the market price of the Company's common stock on the date of conversion.

**Augustine Loan Conversion**

On April 11, 2007, the Augustine Fund converted an aggregate \$717,138, which is comprised of \$420,000 in principal and \$277,138 of accrued but unpaid interest on the 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 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. Of the \$297,138 of accrued but unpaid interest included in this conversion, \$294,042 related to interest accrued as of March 31, 2007, and the remaining \$3,096 related to interest accrued in the second quarter 2007.

**New Millennium Conversion**

On April 13, 2007, New Millennium converted the \$900,000 principal amount of a note, as amended (the New Millennium Note) into 1,636,364 shares of the Company's common stock.

The New Millennium Note had a maturity date of January 15, 2008. 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.

**Issuance to IOWC**

On April 30, 2007, the Company completed its acquisition of the Biolargo technologies from IOWC and issued 22,139,120 shares of the Company's common stock.

**Sales of Unregistered Securities**

From April 1, 2007, through April 25, 2007 the Company received gross and net proceeds of 192,000 from six investors and issued Fall 2006 Notes, which allow conversion into an aggregate of 279,276 shares of the common stock, and Fall 2006 Warrants exercisable for a number of shares of the Company's common stock equal to the number of shares of Common Stock into which the Fall 2006 Notes are convertible.

The offerings and the sales of securities pursuant to the Fall 2006 Offering and the conversions described above are being 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.

**Calvert Employment Agreement**

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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.

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

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 \$184,000 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 health insurance premium payments for himself and his immediate family, a car allowance of \$800 per month, paid vacation of four weeks per year plus an additional two weeks per year for each full year of service during the term of the agreement up to a maximum of ten weeks per year, life insurance equal to three times his base salary and disability insurance.

The 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.

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

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

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.

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### **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:

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 March 31, 2007, unless expressly stated otherwise, and we undertake no duty to update this information.

As used in this Report, the term 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, 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 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 this Report to the Company's common stock are stated on a post-Reverse Split basis.

### **Introduction**

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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.



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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 ). In April 2007, we completed the acquisition of the BioLargo technology from IOWC.

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.

The Company had no continuing business operations as of March 31, 2007 and until the completion of the acquisition of the BioLargo technology on April 30, 2007, and operated as a public shell prior to such date.

## **Plan of Operation**

### ***Overview***

We intend to focus our efforts primarily on the further research and development, and the licensing of the BioLargo technology for at least the next 12 months. 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 the BioLargo technology, subject to adequate financing, we may also produce some of our own products, although we do not presently intend to do so. Subject to regulatory compliance where applicable, the 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. We are actively working with manufacturers, other technology developers and potential customers to develop additional products for distribution.

Our current business plan calls for us to license our BioLargo technology to others for 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 the 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 revenues, if at all.

We intend to pursue commercial opportunities in both the United States and Europe initially.

### ***Sales and Marketing***

Over at least the next 12 months, we intend to devote a significant part of our resources to sales and marketing of the BioLargo technology to potential licensees. This is a continuation of the initial efforts we undertook during 2006. 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. Our sales and marketing efforts are subject to obtaining adequate third-party financing, for which no commitments are yet in place.

In April 2006, we engaged Robert Stewart, Ph.D., to serve as the Company's regulatory specialist for required activities involving the EPA and the FDA. 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.

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From February through April 2006, we began discussions with five major research universities to further our research for specific applications. These various discussions are ongoing and focus on engaging those universities to perform research on the BioLargo technology for soil and sand remediation, animal studies, United States Department of Defense applications, and embedded anti-microbial applications in textiles. 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.

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 GLP standard.

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.

Meetings are continuing with numerous potential licensees or purchasers or other users of products incorporating the BioLargo technology in a range of applications. 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 the BioLargo technology. However, it is essential to note that we do not yet have any agreements in place with any of these potential licensees, purchasers or other users, or any other potential licensees, purchasers or other users, regarding any products incorporating the BioLargo technology, and no assurance can be given if any such efforts will prove successful or result in commercialization of the BioLargo technology.

Because of the global implications of the BioLargo technology, we intend to augment our U.S. operations with an operational and marketing presence in the EU, subject to obtaining adequate funding, which we are actively seeking but for which no commitment has yet been obtained.

As of May 18, 2007, none of the sales and marketing efforts discussed above has generated any revenue, there are no agreements in place and therefore we cannot forecast when we will first generate revenues, if at all.

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

We currently anticipate that research and development costs over the next 12 months could range significantly, between \$300,000 and \$1,000,000, and will be subject to third-party financing which we will require in order to execute our business plan. Although we are actively pursuing such financing, no such commitment is in place at present. 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.

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 six USPTO patent applications and two additional PCT patent applications to the Company. 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 Quarter Ended March 31, 2007 and 2006**

#### ***Revenue***

We had no revenues from operations during either the quarter ended March 31, 2007 or March 31, 2006.

#### ***Selling, General and Administrative Expense***

Selling, General and Administrative expenses were \$619,000 for the quarter ended March 31, 2007, as compared to \$334,000 for the quarter ended March 31, 2006, an increase of \$285,000. The largest components of these expenses were:

- a. Salaries and Payroll-related Expenses: These expenses were \$56,000 for the quarter ended March 31, 2007, compared to \$46,000 for the quarter ended March 31, 2006, an increase of \$10,000. The increase is primarily attributable to an increase in Calvert's salary per his employment agreement and a reduced salary related to Mr. Provenzano, the Company's Secretary.
- b. Consulting Expenses: These expenses were \$140,000 for the quarter ended March 31, 2007, compared \$133,000 for the quarter ended March 31, 2006, an increase of \$7,000. Our utilization of full-time and part-time consultants is consistent with executing our business plan to commercialize the BioLargo technology; to provide applications of the BioLargo technology for potential licensees or other customers in various vertical markets; with advising the Company in various respects regarding the BioLargo business and opportunities; further product development and design; financial, valuation and marketing services; licensing, initial marketing and pre-sale research and activities; and various other consulting services.

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c. Professional Fees: These expenses were \$288,000 for the quarter ended March 31, 2007, compared to \$114,000 for the quarter ended March 31, 2006, an increase of \$174,000. The increase is primarily attributable to an increase in (i) the Company's need for legal work related to the 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 \$66,000 for the quarter ended March 31, 2007, compared to \$0 for the quarter ended March 31, 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 the Company's common stock on the date of conversion.

### ***Research and Development***

Research and development expenses were \$18,000 for the quarter ended March 31, 2007, as compared to \$20,000 for the quarter ended March 31, 2006. Our level of research and product development is consistent with our plan to provide applications of the BioLargo technology for potential licensees or other customers in various vertical markets.

### ***Net Loss***

Net loss for the quarter ended March 31, 2007 was \$1,524,722, or \$0.36 per share, compared to a net loss for the quarter ended March 31, 2006 of \$441,638, or \$0.18 per share.

### **Liquidity and Capital Resources**

We have been, and we will be, limited in terms of our capital resources. Cash and cash equivalents totaled \$146,561 at March 31, 2007. We had no revenues in the quarter ended March 31, 2007 and were forced to use 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 post-acquisition 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 \$1,524,722 for the quarter ended March 31, 2007, negative cash flow from operating activities of \$406,773 for the quarter ended March 31, 2007, and a stockholders' deficit of \$3,457,686 as of March 31, 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 its ability to attract new sources of capital, attain a reasonable threshold of operating efficiencies and achieve profitable operations by commercializing products incorporating the BioLargo technology. The 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 quarter ended March 31, 2007, we raised \$324,000 gross and net proceeds in the Fall 2006 private offering. Subsequent to March 31, 2007, we raised an additional \$192,000 in the Fall 2006 Offering. The Fall 2006 Offering terminated on April 25, 2007. As described below, the notes issued in our 2005 offerings were converted into shares of our common stock in March 2007. (See Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds, and Item 5, Other Information. ) The Fall 2006 Notes remain outstanding.

As of March 31, 2007, we had outstanding approximately \$2,872,963 aggregate principal amount, together with accrued and unpaid interest, on various promissory notes; and approximately \$738,510 aggregate amount of payables owed to directors, an officer and consultants.

Recently, 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.



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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. Of the 1,803,615 shares, (i) 525,000 shares of common stock were issued during the quarter ended March 31, 2007, leaving \$543,421 of accrued payables on the balance sheet as of such date, and (ii) the balance of 1,278,615 shares were issued during the quarter ending June 30, 2007.

On April 11, 2007, the Augustine Fund converted an aggregate \$717,138 of principal and accrued but unpaid interest on the 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.

On April 13, 2007, New Millennium converted the \$900,000 principal amount of the New Millennium Note into 1,636,364 shares of our common stock. The New Millennium Note had a maturity date of January 15, 2008. 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. As of April 13, 2007, accrued but unpaid interest in the amount of \$380,658 remains outstanding on the New Millennium Note.

As a result of the foregoing transactions, we converted an aggregate \$5,201,469 of obligations, consisting primarily of principal amount of notes, accrued and unpaid interest, salaries, fees and payables, into an aggregate 14,080,332 shares of our common stock. Of the \$5,201,469 in obligations converted, \$153,054 related to obligations incurred 2007, and the remaining \$5,048,415 related to obligations incurred prior to December 31, 2006.

Although we recently completed the Fall 2006 Offering to provide additional working capital, we currently estimate that net proceeds currently available from such offering will provide additional capital only until June 2007. 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 the Company's common stock.

Accordingly, we are actively pursuing numerous alternatives for our current and longer-term financial requirements, including additional raises of capital from investors in the form of convertible debt or equity. 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 for at least the next 12 months.

### ***Significant Debt Obligations***

Significant debt obligations at March 31, 2007 included:

(i) \$420,000 due to the Augustine Fund, together with accrued but unpaid interest in the amount of \$297,138, described in more detail below and which, as described above, was subsequently converted into 2,031,553 shares of our common stock in April 2007 based on the total amount due and owing on the conversion date;

(ii) a \$900,000 note payable which was purchased in March 2003 by New Millennium, an entity owned and controlled by the Company's president, Dennis Calvert, and certain members of his family, together with accrued but unpaid interest in the amount of \$380,658, described in more detail below and which principal amount, as described above, was subsequently converted into 1,636,364 shares of our common stock, with the accrued but unpaid interest thereon remaining outstanding;

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(vi) \$25,000 remaining principal amount of a promissory note, together with accrued and unpaid interest in the amount of \$3,237, relating to professional fees; and

(vii) approximately \$21,151 outstanding remaining on a settlement agreement with former convertible debenture holders, which amount remains outstanding.

For the quarter ended March 31, 2007, there was \$698,864 of accrued interest recorded related to these obligations, \$521,240 of which amount was converted into shares of the Company's common stock.

***Augustine Fund Note***

On June 10, 2003 the Company entered into a Term Loan Agreement ( *Loan Agreement* ) with the Augustine Fund, pursuant to which the Augustine Fund agreed to lend the Company \$420,000, payable in installments of \$250,000, \$100,000, and \$70,000 (the *Augustine Loan* ). The proceeds of the Augustine Loan were used by the Company for working capital.

Principal and interest, at an annual rate of 10%, of the Augustine Loan, was originally due on February 29, 2004. In addition, the Loan Agreement contains certain requirements that the Company make mandatory prepayments of the Augustine Loan from the proceeds of any asset sales outside of the ordinary course of business, and, on a quarterly basis, from positive cash flow. In addition, all or any portion of the Augustine Loan may be prepaid by the Company may prepay all or any portion of the Augustine Loan at any time without premium or penalty.

As additional consideration for making the Augustine Loan, the Augustine Fund received five-year warrants to purchase up to 246,336 shares of the Company's common stock at an exercise price of \$4.00 per share, as both amounts are adjusted to reflect the Reverse Split. The Company could require that the warrants be exercised if certain conditions were satisfied. Since these conditions were not fully satisfied by the maturity date, the Loan Agreement provides that the Augustine Fund may, at any time following the maturity date and so long as the warrants remain exercisable, elect to exercise all or any portion of the warrants pursuant to a *cashless exercise* , whereby the Augustine Fund would be issued the net amount of shares of our common stock, taking into consideration the difference between the exercise price of the warrants and the fair market value of our common stock at the time of exercise, without having to pay anything to the Company for such exercise.

As security for the Augustine Loan, New Millennium pledged 100,000 shares of the Company's common stock, as adjusted to reflect the Reverse Split, owned by New Millennium, and, in addition, the Company has granted the Augustine Fund a security interest in its 51% membership ownership interest in our now inactive wholly-owned subsidiary, NuWay Sports, LLC.

Prior to the original maturity date of the Augustine Loan, the Company spoke with representatives of the Augustine Fund and advised them that the Company was unable to pay the amount due under the Augustine Loan by the February 29, 2004 maturity date. On March 30, 2004, the Augustine Fund agreed to extend the maturity date of the Loan Agreement to August 2004. In addition to the extension of the maturity date, the Augustine Fund was given the option of having the Augustine Loan satisfied in cash or by the conversion of any remaining principal balance and any accrued interest on the Augustine Loan to shares of the Company's common stock at a 15% discount to market, so long as Augustine Fund's holdings do not exceed 4.9% of the total issued and outstanding shares of the Company's common stock at any time. In addition, the warrants held by the Augustine Fund to purchase 246,336 shares of the Company's common stock were re-priced to an exercise price of \$0.875 per share, as adjusted to reflect the Reverse Split. Exercise of the warrants is also subject to the limit that the Augustine Fund does not hold more than 4.9% of the issued and outstanding shares of the Company's common stock. On March 7, 2005, the Company and the Augustine Fund agreed to extend the maturity date of the Augustine Loan to May 2006, in exchange for the issuance of a warrant that gives the Augustine Fund the right to purchase 320,000 shares of the Company's common stock at \$0.125 per share for a period of five years, as both amounts are adjusted to reflect the Reverse Split. On July 29, 2005, the Company and the Augustine Fund finalized the terms of this amendment to the Augustine Loan and executed formal documentation, in which the parties agreed to further extend the maturity date to May 2006.

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On October 18, 2006, the Company and Augustine Fund agreed to extend the maturity date of the Augustine Loan to May 1, 2007. Accordingly, as of March 31, 2007, the principal amount of the loan, together with approximately \$294,042 in accrued but unpaid interest, had not been repaid.

On April 11, 2007, the Augustine Fund converted an aggregate \$717,138 of principal and accrued but unpaid interest on the 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.

***Obligation to New Millennium***

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

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

As of March 31, 2007, the principal amount of the note, together with \$377,408 in accrued but unpaid interest, had not been repaid. On April 13, 2007, New Millennium converted the \$900,000 principal amount of the New Millennium Note into 1,636,364 shares of our common stock. The New Millennium Note had a maturity date of January 15, 2008. 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.

***Obligation to Dennis Calvert***

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 common stock at a price of \$0.375 per share, which was the closing bid price on the date of conversion. Since January 1, 2007, Mr. Calvert has been paid his monthly salary per his employment agreement.

***Obligation to Dr. Seay***

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 \$.012 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 amended 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.



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### **Critical Accounting Policies**

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

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

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

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

It is the Company's policy to expense share based payments as of the date of grant in accordance with Financial Accounting Standards 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. The Company does not expect the adoption of Interpretation No. 48 will have a material effect on its 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 in GAAP, 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. The Company is currently evaluating the impact of adopting this standard.

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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. The Company does not expect the adoption of SAB 108 will have a material effect on its 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 the Company's 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 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.

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**PART II**

**Item 1. Legal Proceedings**

The Company is party to various other claims, legal actions and complaints arising periodically in the ordinary course of business. In the opinion of management, no such matters will have a material adverse effect on the Company's financial position or results of operations.

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

In September 2006, the Company commenced a private offering that terminated in April 2007 (the Fall 2006 Offering). In the quarter ended March 31, 2007, the Company sold an aggregate \$324,000 principal amount of its promissory notes (the Fall 2006 Notes) due and payable September 13, 2008 to 16 investors. From April 1, 2007 through April 25, 2007, the Company sold an aggregate \$192,000 principal amount of Fall 2006 Notes to six investors. 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 Common Stock equal to the number of shares of Common Stock into which the 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 common stock at a price of \$0.375 per share, which was the closing 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 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.

On March 29, 2007, the Company 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 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.

All of these offerings and sales were made in reliance on the exemption from registration contained in Section 4(2) of the Securities Exchange Act and/or Regulation D promulgated thereunder as not involving a public offering of securities.

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None

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

NOTE: The numbers listed below are shown on a pre-Reverse Split basis.

We held a special meeting of stockholders on March 15, 2007. At that meeting, our stockholders:

1. Approved the issuance of stock to IOWC in connection with the acquisition by the Company of the BioLargo technology.

Votes For	35,431,082
Votes Against	475,198
Abstentions	15,572,554
Broker Non-Votes	

2. Approved an amendment to our certificate of incorporation to change our name.

Votes For	50,940,695
Votes Against	492,498
Abstentions	45,641
Broker Non-Votes	

3. Approved a reverse split of our common stock.

Votes For	50,476,558
Votes Against	954,635
Abstentions	47,641
Broker Non-Votes	

4. Approved an increase in our authorized capital stock.

Votes For	49,205,003
Votes Against	2,216,798
Abstentions	57,033
Broker Non-Votes	

**Item 5. Other Information**

As described elsewhere in this Report and in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2006, on March 15, 2007, at a special meeting of our stockholders, our stockholders approved (i) the issuance of stock to IOWC in connection with the acquisition by the Company of the BioLargo technology; (ii) an amendment to our certificate of incorporation to change our name; (iii) a reverse split of our common stock; and (iv) an increase in our authorized capital stock.



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On March 15, 2007 the Company's stockholders approved the filing of an amendment to the Company's certificate of incorporation changing the Company's name to BioLargo, Inc. The amendment to the certificate of incorporation was filed on March 16, 2007 with the Secretary of State of the State of Delaware. In connection with this name change, the Company has obtained a new trading symbol. The Company's stock continues to trade through the National Quotation Service Bureau, commonly known as the Pink Sheets, under its new trading symbol BLGO effective March 21, 2007.

Also on March 15, 2007, the Company's stockholders approved, and effective as of the close of business on March 19, 2007, the Company completed, the Reverse Split of its common stock. 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, on a post-Reverse Split basis.

Following such action, the Company converted an aggregate \$2,235,276 of principal and accrued but unpaid interest 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, as adjusted to reflect the Reverse Split and were converted into an aggregate 6,985,441 shares of the Company's common stock, as adjusted to reflect the Reverse Split.

The Company also converted an aggregate \$608,759 of accrued payables to five of its current or former officers and directors into an aggregate 1,623,359 shares of the Company's common stock, as adjusted to reflect the Reverse Split. These conversions were effected at \$0.375 per share, the closing price of a share of the Company's common stock on the March 15, 2007 conversion date, as adjusted to reflect the Reverse Split.

The Company also converted an aggregate \$740,296 of accrued payables to 18 of its current or former consultants into an aggregate 1,803,615 shares of the Company's common stock, as adjusted to reflect the Reverse Split. These conversions were effected at various prices ranging from \$0.20 to \$0.625 per share, as adjusted to reflect the Reverse Split. These shares were received by the Company prior to March 31, 2007, and a total of 525,000 shares were delivered to one consultant representing \$196,875 of accrued payables. The remaining 1,278,615 shares were held by the Company and delivered to the consultants during the second quarter of 2007 and the resulting \$543,421 of the converted accrued payables remain on the balance sheet at March 31, 2007.

On April 11, 2007, the Augustine Fund converted an aggregate \$717,138 of principal and accrued but unpaid interest of the 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.

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 had a maturity date of January 15, 2008. 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.

On April 30, 2007, the Company completed the acquisition of the BioLargo technology. Pursuant to the terms of the Asset Purchase Agreement dated as of April 30, 2007 between the Company, IOWC and Mr. Code (the Asset Purchase Agreement), Mr. Code and IOWC sold, transferred and assigned to the Company all of their rights, title and interests to:

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

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

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

certain records,

in exchange for 22,139,012 shares of the Company's common stock (the IOWC Shares). Mr. Code and certain other co-inventors of intellectual property had previously assigned all of their right title and interest to six patent applications filed with the United States Patent and Trademark Office and two additional patent applications filed under the International Patent Cooperation Treaty. 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.

As part of the completion of the acquisition of the BioLargo technology, the Company entered into an Employment Agreement dated as of April 30, 2007 with Mr. Code (the Code Employment Agreement). The Code Employment Agreement provides that Mr. Code will serve as the Chief Technology Officer of the Company, and receive (i) base compensation of \$184,000 annually (with an automatic 10% annual increase); and (ii) a bonus in such amount as the Compensation Committee of the Board of Directors of the Company (the Compensation Committee) may determine from time to time. In addition, Mr. Code will be eligible to participate in incentive plans, stock option plans, and similar arrangements as determined by the Company's Board of Directors. When such benefits are made available to the senior employees of the Company, Mr. Code is also eligible to receive health insurance premium payments for himself and his immediate family, a car allowance of \$800 per month, paid vacation of four weeks per year plus an additional two weeks per year for each full year of service during the term of the agreement up to a maximum of ten weeks per year, life insurance equal to three times his base salary and disability insurance.

The Code Employment Agreement has a term of five years, unless earlier terminated in accordance with its terms. 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 BioLargo and BLTI.

In connection with the acquisition of the BioLargo technology, the Company also entered into a new employment agreement dated as of 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 \$184,000 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 health insurance premium payments for himself and his immediate family, a car allowance of \$800 per month, paid vacation of four weeks per year plus an additional two weeks per year for each full year of service during the term of the agreement up to a maximum of ten weeks per year, life insurance equal to three times his base salary and disability insurance.

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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.

**Item 6. Exhibits**

The exhibits listed below are attached hereto and filed herewith:

<b>Exhibit No.</b>	<b>Description</b>
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).



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**SIGNAT URES**

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

BIOLARGO, INC.

Date: May 18, 2007

By: /s/ Dennis Calvert  
Dennis Calvert  
Chief Executive Officer and Chief Financial Officer

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**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
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).