NUWAY MEDICAL INC
Form DEF 14A
February 13, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant: ý
Filed by a Party other than the Registrant: ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
ý Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

NuWay Medical, Inc.

(Name of Registrant as Specified in Its Charter)

_____

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

Payment of Filing Fee (Check the appropriate box):

ý No fee required.
¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON MARCH 15, 2007

To Our Stockholders:

You are cordially invited to attend the Special Meeting of Stockholders (the Meeting) of NuWay Medical, Inc., a Delaware corporation (the Company), which will be held at Residence Inn by Marriott, 2855 Main Street, Irvine, California 92614, at 10:00 a.m. local time on March 15, 2007, for the purposes of considering and voting upon the following matters:

1.

A proposal to approve the acquisition of the assets of IOWC Technologies Inc. (IOWC), and the issuance of shares of our common stock to IOWC;

2.

A proposal to approve an amendment to our certificate of incorporation to change our name from NuWay Medical, Inc. to BioLargo, Inc. in connection with completion of the transactions with IOWC;

3.

A proposal to authorize the Board to effect a reverse stock split of our common stock at a specific ratio to be determined by the Board within a range from 1-for-10 to 1-for-100; and

4.

A proposal to increase the authorized capital stock of the Company from 100,000,000 shares of common stock to 200,000,000 shares of common stock and from 25,000,000 shares of preferred stock to 50,000,000 shares of preferred stock, and make certain technical corrections to provisions in our certificate of incorporation regarding our blank check preferred stock.

These matters are described more fully in the proxy statement accompanying this notice.

Our stockholders will also act upon such other business as may properly come before the meeting or any adjournment or postponement thereof. The Board is not aware of any other business to be presented to a vote of the stockholders at the Meeting.

The Board has fixed the close of business on January 29, 2007 as the record date (the Record Date) for determining those stockholders who will be entitled to notice of and to vote at the Meeting. The stock transfer books will remain open between the Record Date and the date of the Meeting.

Representation of at least a majority in voting interest of our common stock either in person or by proxy is required to constitute a quorum for purposes of voting on each proposal to be voted on at the Meeting. Accordingly, it is important that your shares be represented at the Meeting. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY CARD AND RETURN IT IN THE ENCLOSED ENVELOPE. Your proxy may be revoked at any time prior to the time it is voted at the Meeting.

Please read the accompanying proxy material carefully. Your vote is important and we appreciate your cooperation in considering and acting on the matters presented.

By Order of the Board of Directors,

Dennis Calvert
President and Chief Executive Officer

February 13, 2007
Irvine, California

Table of Contents
To
PROXY STATEMENT
FOR
SPECIAL MEETING OF STOCKHOLDERS
OF
NUWAY MEDICAL, INC.

PROXY STATEMENT
FOR
SPECIAL MEETING OF STOCKHOLDERS
OF NUWAY MEDICAL, INC.

To Be Held on March 15, 2007

This proxy statement is furnished in connection with the solicitation by our Board of Directors (the Board) of proxies to be voted at a Special Meeting of Stockholders (the Meeting), which will be held at 10:00 a.m. local time on March 15, 2007 at Residence Inn by Marriott, 2855 Main Street, Irvine, California 92614, or at any adjournments or postponements thereof, for the purposes set forth in the accompanying Notice of Special Meeting of Stockholders (the Notice). This proxy statement and the proxy card are first being delivered or mailed to stockholders on or about February 13, 2007. Our Annual Report for the year ended December 31, 2005, as amended, on Form 10-KSB/A (the 10-KSB) and the Quarterly Report for the nine months ended September 30, 2006, as amended, on Form 10-QSB/A (the 10-QSB) are being mailed to stockholders concurrently with this proxy statement. Neither the 10-KSB nor the 10-QSB is to be regarded as proxy soliciting material or as a communication by means of which any solicitation of proxies is to be made except to the extent that portions thereof are specifically incorporated by reference herein. See the information under Annual Report on Form 10-KSB below which details the portions of the 10-KSB and 10-QSB incorporated by reference herein. The Company s executive offices are located at 2603 Main Street, Suite 1155, Irvine, California 92614 and its telephone number at that location is (949) 235-8062.

VOTING RIGHTS AND SOLICITATION

The close of business on January 29, 2007 was the record date (the Record Date) for stockholders entitled to notice of and to vote at the Meeting. As of the Record Date, we had 78,393,480 shares of common stock, par value $0.00067 per share, and no shares of preferred stock, par value $0.00067 per share, issued and outstanding. All of the shares of our common stock outstanding on the Record Date, and only those shares, are entitled to vote on each of the proposals to be voted upon at the Meeting. Holders of common stock of record entitled to vote at the Meeting will have one vote for each share of common stock so held with regard to each matter to be voted upon.

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

The holders of a majority in voting interest of the common stock outstanding and entitled to vote at the Meeting shall constitute a quorum for the transaction of business at the Meeting. The voting interest of shares of the common stock represented in person or by proxy will be counted for purposes of determining whether a quorum is present at the Meeting. Shares which abstain from voting as to a particular matter will be treated as shares that are present and entitled to vote for purposes of determining the voting interest present and entitled to vote with respect to any particular matter, but will not be counted as votes cast on such matter. If a broker or nominee holding stock in street name indicates on a proxy that it does not have discretionary authority to vote as to a particular matter, those shares will not be considered as present and entitled to vote with respect to such matter and will not be counted as a vote cast on such matter.

In voting with regard to Proposal One (issuance of common stock as part of the transactions with IOWC, which transactions are described in Proposal One and elsewhere in this proxy statement (the Transactions)), stockholders may vote in favor of each such proposal or against each such proposal or may abstain from voting. The vote required to approve Proposal One is governed by Delaware law, and the minimum vote required to approve each such proposal is a majority of the total votes cast on such proposal, provided a quorum is present. As a result, in accordance with Delaware law, abstentions and broker non-votes will not be counted and will have no effect on the outcome of the vote on this proposal.

In voting with regard to Proposal Two (authorizing the name change), Proposal Three (authorizing reverse stock split) and Proposal Four (increase in authorized capital stock and certain technical amendments to our blank check preferred), stockholders may vote in favor of each such proposal or against each such proposal or may abstain from voting. The vote required to approve Proposals Two, Three and Four is governed by Delaware law, and the minimum vote required is majority of the outstanding shares of the Company entitled to vote at the Meeting, provided a quorum is present. As a result, in accordance with Delaware law, abstentions and broker non-votes will have the effect of a vote Against each such proposal.

Shares of our common stock represented by proxies in the accompanying form which are properly executed and returned to us will be voted at the Meeting in accordance with the stockholders instructions contained therein. In the absence of contrary instructions, shares represented by such proxies will be voted FOR each of Proposal One, Proposal Two, Proposal Three and Proposal Four. Management does not know of any matters to be presented at the Meeting other than those set forth in this proxy statement and in the Notice accompanying this proxy statement. If other matters should properly come before the Meeting, the proxyholders will vote on such matters in accordance with their best judgment.

Any stockholder has the right to revoke his, her or its proxy at any time before it is voted at the Meeting by giving written notice to our Secretary and by executing and delivering to the Secretary a duly executed proxy card bearing a later date, or by appearing at the Meeting and voting in person.

The entire cost of soliciting proxies will be borne by the Company. Proxies will be solicited principally through the use of the mails, but, if deemed desirable, may be solicited personally or by telephone, or special letter by our officers and regular employees for no additional compensation. Arrangements may be made with brokerage houses and other custodians, nominees and fiduciaries to send proxies and proxy material to the beneficial owners of our common stock, and such persons may be reimbursed for their expenses.

GENERAL NOTE ABOUT REFERENCES TO SHARES OF OUR STOCK: Unless expressly stated otherwise, all references in this proxy statement to numbers of shares of our common or preferred stock are to such amount prior to a proposed reverse stock split which is being presented to the stockholders as Proposal Three.

PROPOSAL ONE

APPROVAL OF ACQUISITION OF THE ASSETS OF IOWC TECHNOLOGIES INC. AND ISSUANCE OF COMMON STOCK TO IOWC AND KENNETH CODE

General

The Company has been operating as a public shell company since June 2003 and, as of the date of this proxy statement, has no continuing business operations. The Company s Annual Report on Form 10-KSB, as amended, which was mailed to the stockholders at the same time as this proxy statement, contains a discussion of the Company s past business activities and stockholders are urged to read carefully Part I, Item 1, Description of Business and the financial information described under the caption Annual Report on Form 10-KSB below, which is incorporated by reference herein.

As previously disclosed in the Company s public filings with the SEC, the Company has been seeking to acquire a business with ongoing operations. In furtherance of that strategy, the Company conducted a search for suitable candidates and in July 2005 identified certain technologies for use in products designed for distribution in the food, medical, disaster relief and biohazardous material transportation industries as a potential acquisition candidate, which technologies and the anticipated consequences to the Company if the Transactions are not consummated are described in more detail below.

Because Mr. Code is interested in the outcome of Proposal One, Mr. Code will not vote any stock he beneficially owns on this Proposal One at the Meeting.

SUMMARY OF TERMS OF THE TRANSACTIONS

The following is a summary only of certain terms of the Transactions. This summary is qualified in its entirety by the more detailed discussion of the Transactions contained in this proxy statement, including the sections referred to in this summary.

Transactions	We will acquire substantially all of the assets, consisting primarily of technology, license and distribution agreements, of IOWC (collectively, the IOWC Assets). See The Proposal and Reasons for Stockholder Vote , BioLargo Technology and BioLargo Products , Background of the Transactions , Reasons for the Transactions and Risk Factors below.
Consideration	In connection with the closing of the Transactions, we will issue 553,475,300 shares (the IOWC Stock) of our common stock to IOWC. See The Proposal and Reasons for Stockholder Vote and Pro Forma Capitalization and Significant Dilution to Existing Stockholders below.
Previous Agreements	In connection with the Transactions, we have previously entered into a Marketing and Licensing Agreement, which is summarized under Marketing and Licensing Agreement below; a Consulting Agreement, which is summarized under Consulting Agreement below; and a Research and Development Agreement, which is summarized under Research and Development Agreement below.
Additional Agreements	In connection with the closing of the Transactions, we will enter into (i) a definitive asset purchase agreement, summarized under Other Agreements - Asset Purchase Agreement below; and (ii) an employment agreement with Mr. Code, summarized under Other Agreements - Code Employment Agreement .

Conditions to Closing	Among the conditions to closing are approval by our stockholders of (i) approval of the issuance of the IOWC Stock to IOWC, discussed in more detail under The Proposal and Reasons for Stockholder Vote and Pro Forma Capitalization and Significant Dilution to Existing Stockholders below; (ii) the change of our corporate name, discussed in more detail under Proposal Two below; (iii) a reverse split of our common stock,, discussed in more detail under Proposal Three below; and (iv) an increase in our authorized capital stock, discussed in more detail under Proposal Four below.

Change of Control	Upon the closing of the Transactions, IOWC and Mr. Code will own approximately 61.0% of our issued and outstanding common stock. See Pro Forma Capitalization and Significant Dilution to Existing Stockholders below.
Stockholder Approvals	Our stockholders are being asked to approve the issuance of the IOWC Stock, as discussed under Proposal One . However, our stockholders are not being asked to approve the issuance of 15,515,913 shares of our common stock already issued to Mr. Code (the Code Stock) in connection with the Consulting Agreement. See Consulting Agreement below.
Consequences of Non-Approval	If each of Proposals One, Two, Three and Four is not approved by our stockholders, the Transactions will not be consummated. In such event, among other things, (i) the Marketing and Licensing Agreement, Research and Development Agreement and Consulting Agreement will terminate; (ii) Mr. Code will return the Code Stock to us; and (iii) all rights granted to us by BioLargo will revert to BioLargo. See Consequences If Stockholders Do Not Approve Transactions below.

The Proposal and Reasons for Stockholder Vote

The Company is requesting stockholders to approve the acquisition of substantially all of the assets of IOWC (whose principal offices are located at Unit 4, 1780 Glastonbury Blvd NW, Edmonton, AB, Canada T5T 6P9, telephone (780) 482-2753) and the issuance and sale of 553,475,300 shares of the Company s common stock to IOWC, as part of a series of transactions (the Transactions) intended to transfer to the Company certain technology and rights (the BioLargo Technology) relating to a process whereby disinfecting chemistry is incorporated into absorbent materials, liquids, powders, tablets or other delivery methods that can be then incorporated into products in several industries. If the Transactions are not consummated, the Company will remain a public shell with no continuing business operations. The Transactions and the anticipated consequences to the Company if the Transaction are not consummated are described more fully below.

Nasdaq Marketplace Rule 4350 requires stockholder approval in connection with the issuance of or potential issuance which will result in a change of control of the issuer. The Company believes that the issuances related to the Transactions constitute a change in control of the Company, and as such it is appropriate for the Company to seek the approval of its stockholders prior to issuing its shares. While the Company s common stock is not quoted on the Nasdaq National Market and the Company is not subject to Nasdaq Marketplace Rules, the Company believes that it is in the best interest of the Company and its stockholders for the stockholders of the Company to be given the opportunity to vote on the issuance of shares of common stock of the Company in connection with the Transactions. Moreover, the Company believes that if the Company were to apply for listing on a significant market such as Nasdaq, the fact that the Company complied with such rules would be deemed a positive factor in its application. It is important to note, however, that the Company has no current plans to apply for listing on Nasdaq or any other trading market and there is no assurance that, even if the Company were to do so, that the Company s stock would be accepted for trading on any such market.

Proposals Required for Approval of Proposal One

In Proposal One, the Company is requesting the stockholders to approve the issuance of 553,475,300 shares of the Company s common stock. In order for the Company to issue this number of shares, the stockholders must also approve Proposal Three, which requests the stockholders to grant the Board authority to amend and restate our Certificate of Incorporation to effect a reverse stock split of our common stock in an amount to be determined by the Board, but between a 1-for-10 and a 1-for-100 reverse split. For example, effecting a reverse split of the Company s common stock at a minimum of 1-for-10, the actual issuance requested by this Proposal One would be one-tenth the stated amount, or a maximum of 55,347,530 shares. This number of shares is within the limits of the number of shares authorized by the Company s Certificate of Incorporation.

Background of the BioLargo Transactions

At the beginning of 2004, we had no continuing business operations. We operated as a public shell and management was actively seeking merger and acquisition candidates with ongoing operations. We had nominal cash on hand.

Over the course of several years prior to 2004, we had entered various businesses through the acquisition of either entities with operating businesses or technology that could be developed and marketed. However, as a result of various factors, primarily inadequate capital and the inability to raise financing successfully, we could not successfully exploit these acquisitions and integrate them in a way to produce profitable operations. By the end of 2003, management elected to dispose, through sales or other means, of these acquisitions.

We also continued to deal with the effects of certain matters that arose (i) under prior management and (ii) from our business dealings with a former consultant and principal stockholder of the Company, Mark Roy Anderson, from mid-2002 to early-2003. The Company s prior association with Mr. Anderson had led to a number of regulatory and legal inquiries and investigations into the company and its then- management, including an informal inquiry by the SEC. We cooperated with this investigation and a related investigation by the Federal Bureau of Investigation into Mr. Anderson s business dealings. The SEC inquiry was terminated in April 2005.

In February 2004, Mr. Code, the inventor of the patented BioLargo Technology and the president and sole shareholder of IOWC, was introduced to Dennis Calvert, who by that time was the Company s president, by a mutual acquaintance. Mr. Code was seeking to build a management team, secure capital resources to further conduct additional research and development on the BioLargo Technology, commence product development and begin commercializing the BioLargo Technology.

In March 2004, we began preliminary negotiations with Mr. Code which focused on distribution and selling strategy which contemplated the use of Premium Medical Group (PMG) as a selling and marketing agent for the absorbent pads, incorporating the BioLargo Technology. PMG had entered into an agreement with us in January 2004, to merge with the Company. Our early discussions with Mr. Code contemplated an arrangement whereby if the Company were able to generate meaningful sales and or arranged new development capital to be provided for the further development of the BioLargo Technology, then the Company could acquire the BioLargo technology over time, or outright at an agreed upon purchase price. We actively pursued investment capital to support this plan, including the expansion and involvement of PMG.

Around this time, our stock was trading at approximately $0.01 per share with 46,322,736 shares outstanding, or a total market capitalization of approximately $464,000. At that time, we had no continuing operations, no tangible assets and were also lacking in working capital. In addition, we had outstanding liabilities of approximately $3,000,000.

Mr. Code, on behalf of IOWC, informed our management that the BioLargo Technology required working capital to further its research and development and commercialization, and that given our lack of capital resources at the time, we would have to find a way to create sufficient opportunities to develop and commercialize the BioLargo Technology. Mr. Code made it clear in each conversation he had with our management during this time frame that working capital was his first priority to further the development of the BioLargo Technology. Moreover, Mr. Code s initial position was that if he was ever going to consider selling the BioLargo Technology, he would require adequate cash be paid to IOWC for his controlling ownership, in addition to insuring that appropriate working capital would be available to exploit the potential commercial opportunities for the BioLargo Technology.

In April 2004, and in furtherance of the prior discussions, we entered into confidentiality and non-circumvention agreements with IOWC so that we could begin the process of due diligence and technical training prior to embarking on a selling strategy or potential acquisition of the BioLargo Technology. Our management, particularly Dennis Calvert, focused on learning substantially more about the BioLargo Technology, developing a business plan,

embarking on market research, commencing market testing and studying the potential commercial markets and applications for the BioLargo Technology as well as potential funding sources to further its development, and these efforts continued for the next several months. Additionally, Mr. Code focused on training Mr. Calvert about the science of the BioLargo Technology, manufacturing processes and potential commercial markets for the BioLargo Technology. Mr. Calvert continued a methodical process of validating the technical claims of IOWC about the BioLargo Technology as well as training the sales staff at PMG, while our management team continued to search for capital to support the growth plans of PMG.

In July 2004, we were advised by PMG that they were unwilling to pay for a required financial audit of PMG, which was required to consummate the transaction between our two companies. We had also exhausted our contacts with possible financing sources for PMG s expansion and none was successful. Our only source of capital at that time was from Mr. Calvert s personal funds.

In October 2004, we terminated and rescinded the acquisition agreement with PMG. However, because IOWC maintained a high level of interest in working with our management, Mr. Code expressed a willingness to continue working with us on the BioLargo Technology, but also made it clear that capital was required to fully exploit the BioLargo Technology.

Also in October 2004, a new licensing group named BioLargo LLC, which is unaffiliated with IOWC, executed a license agreement with IOWC to commercialize certain aspects of the BioLargo Technology. The benefits of this license agreements were later transferred to us by IOWC, pursuant to an agreement that we entered into with IOWC as of December 31, 2005 (the M&L Agreement); see discussion below. We terminated this license agreement in October 2006, due to non-payment and other breaches by BioLargo LLC.

By December 2004, as a result of our research and market testing of the BioLargo Technology, our Board of Directors agreed with management that it was in our best interest to focus exclusively on the BioLargo Technology for commercial exploitation.

In January 2005, with the assistance of the Company, IOWC entered into a Master Distributorship Agreement with Food Industry Technologies, Inc., for all food applications of the BioLargo Technology.

In early 2005, we engaged the services of Evans & Evans, Inc. (Evans & Evans), an independent business assessment firm, to look at the BioLargo Technology. Evans & Evans is a Canadian corporate finance advisory and valuation firm with offices across Canada and also in the United States. Evans & Evans offers a range of independent and advocate services including valuation and fairness opinions, business planning and research, mergers and acquisitions advice, business due diligence, market and competitive research and capital formation assistance.

Our management was introduced to Evans & Evans by a third-party referral. Management interviewed principals of Evans & Evans to gain an understanding of their qualifications. We also reviewed publicly available qualifications and accomplishments of Evans & Evans. Based on those efforts, management concluded that Evans & Evans was qualified to perform the analysis requested. Given the limited scope of the work and the price quoted by Evans & Evans, we did not interview any other consultants. Other than the amount we paid for Evans and Evans services, there is no material relationship, and there has not been any material relationship for at least the past two years, between Evans & Evans, its partners, employees or associates, and either IOWC or us, and no such relationship is contemplated.

We did not seek a formal appraisal or fairness opinion of the value of the BioLargo Technology given our limited resources and the disparities between our then-current stock value and the assumed range of values of the BioLargo Technology, even the lower end of which significantly exceeded the then-current value of 51% of our common stock.

Evans & Evans issued a report dated March 22, 2005 (the Report). The Report included an estimated value of the BioLargo Technology using a discounted cash flow approach. The Report included an estimated potential price of the 100% of the intellectual property owned by IOWC based on a number of assumptions. The Report did not stipulate the fair market value of the IOWC Assets and/or IOWC itself. Evans & Evans did not opine on the fairness of the consideration we agreed to pay IOWC and we did not ask Evans & Evans to opine on the fairness of the consideration. We determined the amount and type of the consideration to pay IOWC for the BioLargo Technology as a result of negotiations between Mr. Code and our management.

In connection with the preparation of the Report, Evans & Evans relied upon financial and other information, data, advice, opinions and representations obtained by Evans & Evans from public sources or provided to Evans & Evans by IOWC or otherwise pursuant to the engagement of Evans & Evans. The Report is conditional upon the facts or representations which were relied upon by Evans & Evans. Subject to the exercise of their professional judgment and except as expressly described in the Report, Evans & Evans did not attempt to verify independently the accuracy or completeness of any such information, data, advice, opinions or representations.

In preparing the Report, Evans & Evans made adjustments to certain assumptions provided by management to reflect its own professional judgment regarding future events. The Evans & Evans Report has been prepared on the basis of securities markets as well as economic and general business and financial conditions prevailing as at January 31, 2005 and on the condition and prospects, financial or otherwise, of IOWC as reflected in the information and documents reviewed by Evans & Evans and as represented by executive officers and operating management of IOWC. In conducting its analysis, Evans & Evans made numerous assumptions regarding the impact of general economic and industry conditions on the future financial results of the holder of the IOWC Assets.

We paid Evans & Evans $10,700 for its services in preparing the Report.

The following is a summary of the material terms of the final version of the Evans & Evans Report dated March 22, 2005. This summary is not intended to be complete and is qualified in its entirety by the full text of the Report.

In the Report, price refers to the most likely price that an arm s length party might likely buy the IOWC Assets, assuming it is vended into a company that is listed and funded on an organized, regulated and liquid U.S. stock market. It is also based on all of the information and assumptions outlined in the Report. The reader should realize this includes reference to all of the terms and conditions and the assumptions set out in the Report.

Most importantly, price as defined in the Report, approximates market potential , it does not equal fair market value. Price, as defined in the Report, refers to the implied potential price of the IOWC Assets. Such analysis is based principally on a review of the future revenues and/or net income and/or cash flows to be garnered from the IOWC Assets. In doing this, one is examining the future expected cash flows of the IOWC Assets given certain IOWC claimed milestones and assumptions. Such calculated price is based on many factors (i.e. external factors, market conditions, projected organizational performance, etc.).

In preparing the Report, Evans & Evans relied on information provided by the management of IOWC and the Company, as well as publicly available documents and information on the IOWC Assets, IOWC and the Company.

Documents and sources of information utilized or revised by Evans & Evans included: interviews with key members of IOWC s management team; a review of IOWC s and the Company s business plans, marketing materials and product information; a review of IOWC s website; a review of resumes of employees, consultants or directors of IOWC and the Company; a review of the certificate of incorporation and the articles of incorporation for IOWC; a review of funding proposals; a review of material agreements, a review of patent applications; interviews with competitors and industry participants; a review of market data from various independent industry sources; and, a review of financial and stock market trading data on comparable public companies.

Evans & Evans was not provided with formal income statements and balance sheets for IOWC. Had such information been available, pricing approaches and conclusions may have differed and differed materially.

Evans & Evans made the following assumptions in completing the Report as at January 31, 2005 (the Pricing Date): (1) key management of IOWC and the Scientific Advisory Board continue to be associated with the Company for at least the next 36 months following the transaction with IOWC; (2) there are no claims or liabilities associated with the IOWC Assets; (3) IOWC successfully achieves the milestones outlined in its current strategic business plan, including raising sufficient working capital, so that all of the projected financial and business requirements and results associated with IOWC s intellectual property are achieved. Should IOWC s intellectual property not be successful in the above and in generating the revenues outlined in the Report, the price of the IOWC Assets would differ materially; (4) IOWC has satisfactory title to all of the tangible and intangible assets described in the Report and there are no liens or encumbrances on such assets nor have any assets been pledged in any way; and (5) IOWC has complied with all government taxation and regulatory practices as well as all aspects of its contractual agreements that would have an effect on the Report, and there are no other material agreements entered into by IOWC relating to IOWC s intellectual property that are not disclosed in the Report.

In determining the price of an asset and/or a business, there is no single or specific mathematical formula. The particular approach and the factors to consider will vary in each case. Pricing approaches are primarily income-based. Income-based approaches are appropriate where an asset and/or enterprise s future earnings are likely to support a price in excess of the price of the existing net assets. Commonly used income-based approaches are comparable transactions/companies as well as a discounted cash flow analysis.

With respect to IOWC s intellectual property, Evans & Evans believed it was most appropriate to utilize one income-based approach in arriving at the price of IOWC s intellectual property at the Pricing Date. Given the historical and, more importantly, the business model forecasted by IOWC management (i.e., significant orders expected in the short-term) and the long-term nature of IOWC s planned business model, it is the view of Evans & Evans that the most appropriate primary method in determining the range of price of the IOWC Assets at the Pricing Date involved an income-based approach, namely a discounted cash flow approach (DCF Approach).

The DCF Approach was deemed most appropriate given the types of revenues projected going forward, the agreements in place as at the Pricing Date and that it estimates the possible range of cash flows to be received by investors in IOWC s intellectual property. Numerous other approaches were examined but not considered appropriate as indications of price (i.e., comparable companies, comparable transactions, relief from royalty, super profits, etc.) as either insufficient or inadequate information was available regarding each of these approaches.

The DCF Approach is a widely accepted pricing analysis methodology because this approach considers the price of the IOWC Assets given rise to the discretionary cash flow that may well be available to the Company going forward from commercializing the IOWC Assets.

In undertaking the DCF Approach, Evans & Evans utilized projections of operating results the Company, on an assumed post-acquisition of the IOWC Assets basis, as the starting point for calculating the DCF. Those internally-generated projections were based a series of assumptions, which may or may not come to pass and which could significantly affect the values contained in such projections, about a number of factors, including hypothetical licensing and royalty revenue from the sale of products in the absorbent healthcare and transportation industries and assumed market share in those industries over a 10-year acquisition period. It should be noted that the Company s projections were not projections of the assumed or hypothetical value of the BioLargo Technology itself but of hypothetical results of operations. Finally, the nature of all projections is imprecise and no assurance can be given that any of the projected values, whatever they purport to measure, can be achieved.

Evans & Evans did not consider any possible equity holdings that the Company may obtain through its partnership agreements with third parties in the future. While such additional increases in price may very well occur in the future, inclusion of them in the price of the IOWC Assets as at the Pricing Date was considered too speculative. Evans & Evans did extrapolate the four-year projections of IOWC out one year (to the fifth year) and then used these projections (for the years ended December 31) with a series of additional financial modifications to reflect the price related to IOWC s intellectual property. Evans & Evans also subtracted certain costs and expenses related to the corporate operations of the Company versus being related to the IOWC Assets.

In undertaking the DCF Approach, the authors of the Report adjusted for a $3,500,000 equity injection required to fund the operations in year one and beyond. A review of IOWC s assumptions and overall projections resulted in Evans & Evans selecting discount rates in the range of 25% to 30% to account for a blend of financial risk as well as equity invested. Evans & Evans also adjusted downwards the residual multiplier (from 3.33 to 2.5) in order to properly reflect the business and financial risk associated with achieving the projected after-tax level of cash flows from years 1-5. Evans & Evans considered the various due diligence and qualitative factors outlined in the Report in determining the appropriate discount rates to use in the DCF Approach.

Based upon and subject to the assumptions, limitation, adjustments and analyses set forth in the Report, Evans & Evans is of the view that the price of IOWC s intellectual property was in the range of $22.0 million as of the Pricing Date.

The Report will be made available for inspection and copying at our principal executive offices during regular business hours by any interested stockholder or representative of a stockholder who has been so designated in writing. A copy of the Report will also be furnished by us to any interested stockholder or representative who has been so designated in writing upon written request and at the expense of the requesting stockholder. Any such request should

be directed to Corporate Secretary, NuWay Medical, Inc., 2603 Main Street, Irvine, California 92614 (telephone (949) 235-8062).

In April 2005, the Company and IOWC continued their discussions on the basic terms of how to structure the acquisition of the BioLargo Technology by the Company. The two companies also continued to formulate a plan for the commercialization of the BioLargo Technology. In June 2005, we engaged an outside consultant to assist us in developing a strategic business plan, including assisting us in identifying key revenue targets and strategies for licensure of the BioLargo Technology.

By June 2005, after our months-long marketing inquiries and in consultation with outside consultants and potential licensing partners as well as leaders in industries which could apply the BioLargo Technology, our management gained additional comfort that, if adequate capital resources could be made available, the BioLargo Technology was commercially viable and the size of the potential markets for products incorporating the BioLargo Technology were sufficiently large to warrant its continued pursuit by us. There were no other active acquisition possibilities known to our mangement at that time and the business proposition with IOWC therefore had the opportunity to create the greatest possibility of enhanced shareholder value over time.

Meaningful negotiations took place in June and July 2005, leading to the signing of a letter of intent between us and IOWC. The negotiations over the amount consideration to be paid to IOWC were greatly influenced by IOWC s requirements, which had been clear from the inception of the relationship in March 2004, as to what IOWC required before it would be willing to relinquish control over the BioLargo Technology. Mr. Code had made it clear in his earlier conversations with our management that working capital was his first priority to further the development of the BioLargo Technology, and that if IOWC was ever going to consider relinquishing control, it would require that cash be paid to IOWC for a controlling ownership, in addition to insuring that appropriate working capital was available to exploit the commercial opportunities for the BioLargo Technology. However, during the 15 months of the relationship between Mr. Code and Mr. Calvert on behalf of the Company, during the March 2004 through mid-2005 period, our management was able to demonstrate sufficiently to IOWC that it had the skills and commitment that IOWC sought to exploit the commercial opportunity available to the BioLargo Technology, and that management was committed to creating value for its shareholders, despite having limited capital resources.

As a result of the foregoing, negotiations regarding the amount of consideration to be paid by us for the BioLargo Technology shifted to reflect a recognition that while our capital resources were still insufficient to fully exploit the BioLargo Technology, the parties still wished to complete the transaction with each other and another mutually acceptable method of consideration had to be found. Mr. Code suggested that if IOWC were to receive a majority of our common stock, then he would have the ability to exert a larger measure of control over us to ensure that we took the necessary additional actions to seek capital and invest it in the further development and commercialization of the BioLargo Technology, and, additionally, he would be rewarded for deferring cash at closing and waiting until a later date for the monetization of his years of efforts in developing the BioLargo Technology in the form of enhanced shareholder value through stock ownership.

For its part, our management had not only come to believe that the commercialization of the BioLargo Technology was viable, but also knew that it had no other active prospects for acquisition or merger. Accordingly, our management agreed that IOWC would receive a majority of our common stock. Because Mr. Code was not willing to let IOWC be diluted below 51%, the parties reviewed calculations of the Company s outstanding shares on a fully-converted basis, based on the convertible securities then issued and outstanding and agreed that this percentage of our common stock would be issued to IOWC in consideration of the IOWC Technology.

Given the low market valuation of our common stock, our mangements concluded that the opportunity to enhance future shareholder value was greater than the consideration to be paid to IOWC for a controlling interest in the Company. The highest closing price of our common stock for the quarter ending June 30, 2005 was $0.02 with approximately 52,000,000 shares outstanding of June 30, 2005, or a total maximum market capitalization of approximately $1,040,000. At this time, our current liabilities were approximately $4,300,000. We had cash on hand at the end of June 2005 of approximately $181,000 and no other tangible assets.

Our management concluded that the value of the BioLargo Technology significantly exceeded the then-current value of 51% of our outstanding common stock on a fully-converted basis.

On July 25, 2005, we executed a letter of intent with IOWC, pursuant to which we agreed to acquire BioLargo Technology and two license and/or distributor agreements pursuant to which IOWC had licensed the BioLargo Technology for use in products designed for distribution in the food, medical and biohazardous material transportation

industries. For more detailed information about the terms of the letter of intent, please see the information set forth under the caption Letter of Intent under this Proposal One below.

Between mid-2005 and December 2005, our management continued to study and implement initial marketing and commercial licensing opportunities associated with the BioLargo Technology. The Company had no ongoing operations, no tangible assets and cash on hand of approximately $283,000. Current Liabilities were just over $5,000,000. Because of the slower-then-anticipated pace of completing the Transactions and raising sufficient capital to more aggressively develop and commercialize the BioLargo Technology, Mr. Code requested, and our

management agreed, to adjust the previous calculations of stock to be paid to IOWC to reflect certain possible additional issuances of common stock or securities convertible into common stock in the future, such as additional capital raises to fund operations, possible conversion of accrued and unpaid compensation to executives of the Company for stock, conversion of accrued and unpaid interest on debt and issuances of employee stock options.

Our management carefully calculated the potential dilution effects of a number of anticipated future issuances to generate a calculation of anticipated but not realized dilutive transactions as of the projected closing date of the Transactions, but dilutive transactions that the parties believed would be, or were likely to be, realized by the Company in the future. The total number of shares of our issued and outstanding common stock, on a fully-converted basis, was then adjusted to account for such further possible issuances, so that after all such issuances IOWC would still have approximately 51% of the total number of shares of our common stock. Because the parties acknowledged that such calculations were estimates and not precise, the parties agreed to increase the number of shares to be issued to IOWC from approximately 51% to approximately 61%, to allow for dilution of the IOWC position back down to 51% as these other issuances and conversions occurred. Based on the then current outstanding number of shares of our common stock, this calculation came out to 568,991,213 shares. This was the final agreed upon number of shares to be issued to IOWC that was included in the M&L Agreement discussed in the next paragraph.

Because of the Company s small size and continued limited resources, our ability to fund IOWC s ongoing research and development and pre-marketing activities proceeded at a slower pace than was originally anticipated. Therefore, pending our ability to consummate the acquisition of the BioLargo Technology, in December 2005, we executed the M&L Agreement with IOWC and Mr. Code. Pursuant to the M&L Agreement, we, through our wholly-owned subsidiary BioLargo Life Technologies, Inc. (BLTI) acquired certain rights to develop, market, sell and distribute products that were developed, and are in development, by IOWC. For more detailed information about the terms of the M&L Agreement, please see the information set forth under the caption Marketing and Licensing Agreement under this Proposal One below.

In April 2006, we engaged Robert Stewart, Ph.D., to serve as the Company s regulatory specialist for U.S. Environmental Protection Agency (EPA) and U.S. Food and Drug Administration (FDA) required activities. 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.

Because of the continuing slower pace of consummating the BioLargo Transactions, in part the result of our continuing limited capital resources, and in consideration of certain of Mr. Code s personal reasons, pending the consummation of the BioLargo Transactions, we entered into a Consulting Agreement (the Consulting Agreement) with Mr. Code in June, 2006, effective January 1, 2006. The Consulting Agreement was initially due to expire on January 1, 2007, in anticipation of the consummation of the BioLargo Transaction by such date, and the term has been extended to March 31, 2007. Upon the consummation of the BioLargo Transactions, we intend to enter into a long-term employment agreement with Mr. Code. For more detailed information about the terms of the Consulting Agreement, please see the information set forth under the caption Consulting Agreement under this Proposal One, below. For more detailed information about the anticipated terms of the employment agreement, please see the information set forth under the caption Other Agreements - Asset Purchase Agreement - Code Employment Agreement under this Proposal One, below.

Similarly, pending the consummation of the BioLargo Transactions, in August 2006, we and BLTI entered into a Research and Development Agreement with IOWC and Mr. Code, pursuant to which IOWC and Mr. Code will provide research and development services and expertise in the field of disposable absorbent products to the Company and BLTI. That agreement, as amended (the R&D Agreement), was initially due to expire on December 31, 2007 in anticipation of the consummation of the BioLargo Transaction by such date, and the term has been extended to March 31, 2007. For more detailed information about the terms of the R&D Agreement, please see the information set forth under the caption Research and Development Agreement under this Proposal One, below.

In September 2006, Mr. Code, as inventor, and BLTI, as assignee, filed two more patent applications with the US Patent and Trademark Office. A third patent application was filed on October 11, 2006 by and for the same parties. For more detailed information regarding these most recent patent applications, please see the information set forth under the caption BioLargo Technology and BioLargo Products under this Proposal One, below.

In February through April, 2006, we began discussions with five major research universities to further our research for specific applications. In September 2006, we hired UCLA to research applications of the BioLargo technology for beach and soil remediation. An initial report regarding this research was presented in October 2006 at the National Beaches Conference sponsored by the EPA. 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, Department of Defense applications, and embedded anti-microbial applications in textiles.

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

Throughout 2006, we also have been actively involved in initial marketing activities of the BioLargo Technology. For example, in February 2006, we presented the BioLargo Technology to a number 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.

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 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 we also attended a national Agro Terrorism Conference sponsored by the Federal Bureau of Investigation and the Joint Terrorism Task Force.

Meetings with numerous potential licensees or purchasers or other users of products incorporating the BioLargo Technology in a wide range of applications, have continued. 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.

BioLargo Technology and BioLargo Products

Mr. Code and IOWC have developed and own the BioLargo Technology, consisting of certain intellectual property including two U.S. Patents (Patent Numbers 6146725 and 6328929), relating to a process whereby disinfecting chemistry is incorporated into absorbent materials, liquids, powders, tablets or other delivery methods, that can be then incorporated into products in multiple industries. Three patent applications have recently been filed with the US Patent and Trademark Office relating to this technology listing Code as inventor and BLTI as assignee pursuant to the Research and Development Agreement discussed below. The first application relates to the remediation and improvement of land mass that has been contaminated with microbes such as bacteria, viruses, rickittsiae and fungi. The technology relates to the treatment of ground such as soil and sand with chemicals acting as antimicrobial agents. The second application relates to the field of antimicrobial protection, particularly antimicrobial activity in close proximity to the bodies of patients, and more particularly in removable materials placed into contact with the bodies of

patients. The third application relates to the field of antimicrobial protection, particularly antimicrobial activity in close proximity to environments that need to be protected from or cleansed of microbial or chemical material that might be of concern. These include closed and open environments.

If the Transactions are completed, the Company intends to use the BioLargo Technology to develop certain products for use in distribution in the food, medical, disaster relief and biohazardous material transportation

industries. For the purposes of this proxy statement the term BioLargo Products means any product designed, manufactured, conceived or contemplated, either at the present time, or in the future, based on the BioLargo Technology or any derivation thereof.

It is expected that the BioLargo Technology will enable the Company to offer a portable product that comparably addresses four precautions containment, isolation, neutralization and disposal against disease transmission as established by the Center for Disease Control. The BioLargo Technology has been reviewed and validated in several third party studies. The Company believes that the BioLargo Technology and derivative products may be applied in approximately 30 products in several vertical markets.

The Company believes that the primary initial markets for its products are likely to be:

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Packaging for Blood and Bio-hazardous Material Transport

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Medical Products

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Meat and Poultry Packing

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Disaster Relief Efforts, Soil and Sand Remediation, and Water Treatment

The Company plans to pursue its primary revenues from licensing its BioLargo Technology. It has multiple products available for immediate distribution, namely absorbent pads and materials to be used for clean up of or as a precautionary measure from spills of liquids, including hazardous materials. The Company is actively developing additional products for distribution by working with manufacturers, other technology developers and potential customers.

The BioLargo Technology places inorganic compounds (similar in composition and dosage to what is used in everyday common vitamins) into absorbent products like bed pads, blood pads, diapers, surgical drapes, transportation packages for protective liners, wound dressings, bandages and other delivery methods.

Management believes that the BioLargo Technology offers the following features:

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Increased Holding Power The technology can increase the holding power of absorbent material up to 6 times, depending on product configuration.

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Price The actual cost of raw materials and installation of the BioLargo Technology chemistry is less than $0.10 per metric ton.

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Generally Regarded As Safe (GRAS) The chemistry used is understood by the Food and Drug Administration and scientific community as non-toxic, and safe, in the dosages used as well as the methodology of its delivery.

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Disinfection The chemical composition of the technology installed into products, deploys an additive germ killing strategy, that includes a flashing of Iodine, (the so-called Gold Standard by which all disinfecting strategies are compared) a lowering of PH levels-creating an acidic environment, oxidation, and flocculation, a binding reaction to lock in the microbes.

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Isolation The chemistry reacts when insulted by a liquid, and is absorbed by the super absorbent material in the pad, and is effectively bound into the product, thereby isolating it from any escape.

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Bio-Degradable The chemistry accelerates decomposition.

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Containment The chemistry when added to a super absorbent materials acts to contains microbial particles, so they cannot escape.

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Inorganic Solution The use of Iodine is strategic to the Company s products in that it is the most effective disinfecting solution, covering a broad range of materials upon which it is effective, and as an Inorganic Solution, organic microbes are unable to develop resistance to its killing power.

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Disposal It renders products safe to handle.

Letter of Intent

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

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

Marketing and Licensing Agreement

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

Pursuant to the M&L Agreement the Company, through BLTI, acquired certain rights to develop, market, sell and distribute products that were developed, and are in development, by BioLargo relating to the BioLargo Technology and BioLargo Products.

Licenses Granted to BLTI

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

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

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

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

- ***Manufacturing Rights***. A transferable, worldwide exclusive right to manufacture, or have manufactured, BioLargo Products.

- ***Selling Rights***. A transferable, worldwide exclusive right to sell BioLargo Technologies and BioLargo Products.

- ***Distribution Rights***. A transferable, worldwide exclusive right to inventory and distribute BioLargo Products.

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Licensing Rights. A transferable, worldwide exclusive right to license BioLargo Technologies and BioLargo Products to third parties.

Assigned Agreements

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

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

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

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

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

Consulting Agreement

On June 20, 2006, the Company entered into the Consulting Agreement with Mr. Code. Pursuant to the Consulting Agreement, the Company has engaged the services of Mr. Code, effective January 1, 2006, to advise the Company in research and development and technical support, and to provide other services and assistance to the Company in matters relating to the Company s business.

The Consulting Agreement contains provisions requiring Mr. Code to devote substantially all of his business time to the Company; prohibiting Mr. Code from directly or indirectly engaging in any business activity that would be competitive with the business of the Company or its affiliates, including its wholly-owned subsidiary BioLargo Life Technologies, Inc.; providing that during the term of the Consulting Agreement and for one year post-termination, Mr. Code will not solicit the Company s employees or customers; and other standard provisions typical for a consulting agreement. The Consulting Agreement also provides that the Company shall retain the exclusive right to use or distribute all creations which may be created during the term of the Consulting Agreement. The Consulting Agreement, as amended on December 20, 2006, terminates on March 31, 2007, unless terminated earlier as provided therein. During the term of the Consulting Agreement, Mr. Code shall be paid $15,400 per month, prorated for partial months, and shall be entitled to reimbursement for authorized business expenses incurred in the performance of his duties.

It is anticipated that the Consulting Agreement will be replaced with an employment agreement between the Company and Mr. Code, pursuant to which Mr. Code will be employed as BLTI s Chief Technology Officer. See Other Agreements Asset Purchase Agreement *Code Employment Agreement* below.

Research and Development Agreement

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

The R&D Agreement provides that the Company and BLTI will own, and the Company and BLTI 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 BLTI s business.

The R&D Agreement, as amended on December 20, 2006, terminates on March 31, 2007, unless terminated earlier as provided therein. 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 Code 15,515,913 shares of its Common Stock (the Code Stock), or approximately 19.9% of the Company s issued and outstanding common stock immediately following the issuance of the Code Stock.

The Company s stockholders **are not** being asked to approve the issuance of the Code Stock by the Company. **However, because Mr. Code is interested in the outcome of this Proposal One, as the principal stockholder of IOWC, neither the Code Stock nor any other stock of the Company which Mr. Code beneficially owns will vote on Proposal One at the Meeting.**

Mr. Code and IOWC have agreed to protect, maintain and keep confidential any proprietary or confidential information of the Company and BLTI and have executed a non-disclosure and confidentiality agreement in favor of the Company.

Other Agreements

The M&L Agreement also provides that the parties will enter into certain additional agreements in furtherance of the LOI, including (i) an asset purchase agreement (Asset Purchase Agreement) whereby the Company will acquire the two U.S. patents held by IOWC and certain other assets of IOWC; and (ii) an employment agreement with Mr. Code (the Code Employment Agreement).

The following are summaries only of the likely provisions of the Asset Purchase Agreement to be entered into by the Company, BLTI, IOWC and Mr. Code, and the Code Employment Agreement to be entered into between BLTI and Mr. Code. The Company has approved the consummation of the transaction on the terms and subject to the conditions so summarized, but the other parties to the agreements have not, as of the date of this proxy statement, and other than the number of shares to be issued to IOWC, approved these terms and conditions in their entirety. Thus these summaries are neither complete nor necessarily a summary of the final terms between and among the parties with respect to the subject matter thereof, which may be still subject to negotiation.

Asset Purchase Agreement

Sale of Assets. Pursuant to the terms of the Asset Purchase Agreement, Mr. Code and IOWC will sell, transfer and assign all of their rights, title and interests to two US patents and related intellectual property, as well as the records related to the patents and intellectual property.

In addition to the Code Stock issued in August 2006 and as further and full payment for IOWC s obligations set forth in the M&L Agreement, pursuant to the Asset Purchase Agreement, the Company will deliver to IOWC the following number of shares of common stock comprising, in the aggregate, the IOWC Stock upon the approval of the issuance of the IOWC Stock by the Company s stockholders, which amounts shall be based upon the total outstanding common stock after the issuances of this stock consideration, as well as the conversion into common stock of the Company s existing debt:

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Licensing Rights. As full payment for the license granted to BLTI, and without taking into account the effects of a reverse split of the Company s common stock as described in Proposal Three, the Company will deliver to IOWC 411,558,557 shares of the Company s common stock.

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Assigned Agreements. As full payment for the assignment of the Assigned Agreements, and without taking into account the effects of a reverse split of the Company s common stock as described in Proposal Three, the Company will deliver to IOWC an additional 127,725,069 shares of the Company s common stock.

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Asset Purchase Agreement. As full payment for the transfer of any intellectual property under the terms of the Asset Purchase Agreement, and without taking into account the effects of a reverse split of the

Company s common stock as described in Proposal Three, the Company will deliver to IOWC an additional 14,191,674 shares of the Company s common stock.

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Total Consideration. The total common stock to be issued to IOWC for all components of the Transactions, without taking into account the effects of a reverse split of the Company s common stock as described in Proposal Three, shall equal 553,475,300 shares of the Company s common stock. Separately, Mr. Code has already been issued 15,515,913 shares of the Company s common stock in connection with the R&D Agreement.

The Company s stockholders are being asked to approve the issuance of 553,475,300 shares of the Company s common stock, which comprises the IOWC Stock, at the Meeting. The number of shares to be issued to IOWC has been calculated prior to giving effect to the reverse split on which stockholders are being asked to vote. See Proposal Three below. A reverse split must be effectuated prior to the issuance to IOWC because the Company s Certificate of Incorporation only allows the issuance of 100,000,000 shares of its common stock (or 200,000,000 if Proposal Four is approved). The Company s stockholders are not being asked to approve the issuance of the 15,515,913 shares of the Company s common stock previously issued to Mr. Code, which comprise the Code Stock.

Representations and Warranties. As part of the Asset Purchase Agreement, Mr. Code and IWOC, jointly and severally, will make certain representations and warranties to BLTI with respect to, among other things:

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title to the assets being sold;

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sufficiency of the assets for the future conduct of business by BLTI;

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intellectual property matters;

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litigation and proceedings;

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compliance with laws; and

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required consents.

The Asset Purchase Agreement also contains additional representations and warranties of Mr. Code and/or IOWC, and of BLTI, standard for asset purchase transactions.

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.

Conditions to Closing. The Asset Purchase Agreement provides certain conditions to the obligations of the parties, which must either be satisfied or waived before the closing can occur.

The Transactions are subject to approval by IOWC s board of directors and stockholders, approval by the Company s Board and approval by the Company s stockholders at the Meeting of the following matters:

- an amendment to the Company s Certificate of Incorporation increasing the number of authorized shares of its common stock;
- the issuance of the number of shares of common stock to IOWC required pursuant to the Transactions;
- authorization for the Board to reverse split of the Company s common stock, in a ratio it deems appropriate; and
- the election of Mr. Code to the Company s Board.

The consummation of the Transactions with IOWC is subject to various other conditions, in addition to those described hereinabove, such as contractual conditions customary for transactions of this nature. The Company currently expects to consummate the transactions in the first quarter of 2007, assuming the Company s stockholders approve Proposals One, Two, Three and Four and all other conditions to the consummation of the Transactions with IOWC are satisfied.

Indemnification. Under the Asset Purchase Agreement, IOWC and Mr. Code will, jointly and severally, indemnify BLTI and each of its officers, directors, employees, agents and affiliates, and each of their successors and assigns from and against any and all costs, losses, claims, liabilities, fines, penalties, consequential damages (other than lost profits), and expenses (including interest which may be imposed in connection therewith and court costs

and reasonable fees and disbursements of counsel) incurred in connection with, arising out of, resulting from or incident to:

- liabilities or claims arising out of the assets or the business of IOWC before the closing;
- liabilities or claims after the closing relating to IOWC or Mr. Code;
- breach of the representations or warranties made by IOWC or Mr. Code;
- default in any agreements made by IOWC or Mr. Code;
- taxes of any kind arise out of or result from the transactions contemplated by the Asset Purchase Agreement; and
- liabilities or claims relating to employee matters.

BLTI will indemnify IOWC and Mr. Code and their 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 BLTI; and
- default in any agreement made by BLTI.

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.

Termination. The Asset Purchase Agreement provides that the parties by mutual agreement may terminate the Asset Purchase Agreement. In addition, either party may unilaterally terminate the Asset Purchase Agreement if that party determines that the conditions to closing of the other party will not be satisfied or if the other party has breached a representation or warranty and fails to cure such breach within five days after receiving notice of such breach.

The Asset Purchase Agreement also allows BLTI to terminate the Asset Purchase Agreement if:

- it is not satisfied, in its sole discretion, with the results of its due diligence investigations; and

- it has not obtained on terms and conditions satisfactory to it, in its sole discretion, all of the financing it needs to consummate the transactions contemplated by the Asset Purchase Agreement and fund the working capital requirements of BLTI after the closing.

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

Code Employment Agreement

The Code Employment Agreement is anticipated to provide that Mr. Code will be appointed Chief Technology Officer of BLTI, and receive (i) base compensation of $184,000 annually (with an automatic 10% annual increase) and (ii) a bonus equal to equal to 3% of the licensing revenues received by BLTI, plus (iii) such other amounts that the Board of Directors of BLTI 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 Board of Directors of BLTI. Mr. Code is also eligible to receive heath insurance premium payments for himself and his 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, and disability insurance. Mr. Code will also be entitled to participate in any other plans and arrangements, which provide for sick leave, vacation, or personal days, provided to or for the officers of BLTI from time to time. The employment agreement will have a term of five years, unless earlier terminated in accordance with its terms.

The Code Employment Agreement is also anticipated to provide that Mr. Code s employment may be terminated by BLTI due to disability, for cause or without cause. Mr. Code s employment may be terminated if he is unable to return to his duties within 30 days after notice of termination is given to him. During the disability period,

Mr. Code is eligible to receive his salary and benefits. 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 BLTI or interfere with any business relationship of BLTI.

Mr. Code will also be nominated for election to the Board of the Company and appointed to the board of directors of BLTI.

Reasons for the Transactions

The Board has determined that the terms of the issuance of common stock to IOWC and Mr. Code in connection with the Transactions are fair, and in the best interests of, the Company and its stockholders. The Board consulted with management, as well as its legal counsel and financial advisors, in reaching its decision to approve the Transactions. The Board considered a number of factors in its deliberations, including the following:

- Viability of the BioLargo Technology
- Commercial viability when deployed in a licensing strategy
- Potential future revenue
- Existing license agreements already executed
- Availability of third party validations of the Technology claims
- Prospects for future technology developments
- Potential target licensing partnerships
- Commitment by Mr. Code to serve as CTO

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Prospects for customer acceptance of the products

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