NUWAY MEDICAL INC
Form 10QSB
May 15, 2006

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

FORM 10-QSB

|X| QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006

or

|_| TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to ______________

Commission File Number 000-19709

NUWAY MEDICAL, INC.
(Exact name of registrant as specified in its charter)

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

2603 Main Street, Suite 1155
Irvine, California 92614
(Address, including zip code, of principal executive offices)

(949) 235-8062
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act: None
Securities registered pursuant to Section 12(g) of the Exchange Act: Common Stock, $0.0067 par value.

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

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

The number of shares of the Registrant's Common Stock outstanding as of May 11, 2006 was 62,453,501 shares.

DOCUMENTS INCORPORATED BY REFERENCE: None

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

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PART I

Item 1. Financial Statements

NUWAY MEDICAL, INC AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2006 AND DECEMBER 31, 2005

ASSETS

	March 31, 2006 (unaudited)	Dec
CURRENT ASSETS		
Cash and Cash Equivalents	$ 647,037	$
Prepaid Expenses	63,750	
Total Current Assets	710,787	
TOTAL ASSETS	$ 710,787	$

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 2,404,126	$
Notes Payable	3,518,070	
Debentures Payable, Net	21,151	
Total Current Liabilities	5,943,347	

COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS		
SHAREHOLDERS' DEFICIENCY		
Convertible Preferred Series A, $.00067 Par Value, 25,000,000 Shares Authorized, 439,322 and 559,322 Shares Issued and Outstanding at March 31, 2006 and December 31, 2005, respectively	295	
Common Stock, $.00067 Par Value, 100,000,000 Shares Authorized, 62,453,501 and 62,333,501 Shares Issued At March 31, 2006 and December 31, 2005, respectively	41,096	
Additional Paid-In Capital	23,396,874	2
Accumulated Deficit	(28,670,825)	(2
Total Shareholders' Deficiency	(5,232,560)	(
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY	$ 710,787	$

See accompanying notes to unaudited consolidated financial statements.

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NUWAY MEDICAL, INC AND SUBSIDIARY
STATEMENTS OF OPERATIONS FOR THE THREE MONTH PERIOD ENDING
MARCH 31, 2006 AND 2005

	For the period ending March 31	
	2006 (unaudited)	2005 (unaudited)
Revenue		
Total Revenues	--	--
Costs and Expenses		
Selling, General and Administrative	353,477	193,712
Depreciation, Depletion and Amortization	--	--
Total Costs and Expenses	353,477	193,712
Loss from operations	(353,477)	(193,712)
Other Income and Expense		
Interest Expense	(88,161)	(50,317)
Other Income	--	--
Net Other Expense	(88,161)	(50,317)
Loss Before Income Taxes	(441,638)	(244,029)

Provision for Income Taxes (Benefit)	--	--
Net Loss	(441,638)	(244,029)
Loss Per Common Share - Basic and Diluted		
Loss per share from Continuing Operations	$ (0.01)	$ (0.01)
Net Loss per Share, rounding	$ (0.01)	$ (0.01)
Weighted Average Common Share Equivalents Outstanding	62,453,501	45,786,842

See accompanying notes to unaudited consolidated financial statements.

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NUWAY MEDICAL, INC AND SUBSIDIARY
STATEMENTS OF STOCKHOLDERS' DEFICIENCY (UNAUDITED)
FOR THE THREE MONTH PERIOD ENDING MARCH 31, 2006

	Preferred Stock		Common Stock	
	Number of Shares	Par Value $.00067	Number of Shares	Par Value $.00067
BALANCE DECEMBER 31, 2005	559,322	375	62,333,501	$ 41,016
CONVERSION OF PREFERRED TO COMMON STOCK	(120,000)	(80)	120,000	80
NET LOSS				
BALANCE MARCH 31, 2006	439,322	$ 295	62,453,501	$ 41,096

See accompanying notes to unaudited consolidated financial statements.

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NUWAY MEDICAL, INC AND SUBSIDIARY
STATEMENTS OF CASH FLOWS FOR THE THREE MONTH PERIOD ENDING
MARCH 31, 2006 AND 2005

Three Month Per

	Ending March	
	2006 (unaudited)	20 (unau
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$(441,638)	$(24
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Increase (decrease) in Prepaid Expenses	(63,750)	
Increase in Accounts Payable and Accrued Expenses	91,463	9
Net Cash Used In Operating Activities	(413,925)	(15
CASH FLOWS USED IN INVESTING ACTIVITIES		
No Cash Used In or Provided by Investing Activities	--	
CASH FLOWS FROM FINANCING ACTIVITIES		
Funds from Loans	777,500	15
Payments to reduce Note Payable	--	
Proceeds from Sale of Common Stock	--	
Net Cash Provided By Financing Activities	777,500	15
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	363,575	
CASH AND CASH EQUIVALENTS - BEGINNING	283,462	
CASH AND CASH EQUIVALENTS - ENDING	$ 647,037	$
SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION		
Cash Paid During the Period for:		
Interest	$ --	$
Income Taxes	$ --	$
Conversion of Debentures and Accrued Interest to Capital	$ --	$

See accompanying notes to unaudited consolidated financial statements.

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NUWAY MEDICAL INC. AND SUBSIDIARY
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Accounting Policies-Basis of Presentation

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

Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-QSB should be read in conjunction with Management's Discussion and Analysis and financial statements and notes thereto included in the NuWay Medical, Inc. Annual Report on Form 10-KSB for the year ended December 31, 2005.

Note 2. Business and Organization

Outlook

The Company had no continuing business operations as of March 31, 2006. The Company operated as a public shell during the three month period ended March 31, 2006, and operations primarily consisted of the Company's president seeking funding, maintaining the corporate entity, complying with the requirements of the Securities Exchange Commission (the "SEC") and seeking merger and acquisition candidates or new business opportunities. See discussion of the letter of intent with IOWC Technologies, Inc. ("IOWC"), in Note 5.

The Company will need working capital resources to maintain the Company's status and to fund other anticipated costs and expenses during the year ending December 31, 2006 and beyond, as well as to consummate the transactions with IOWC and fund the operations of the Company after the transactions are consummated. The Company's ability to continue as a going concern is dependent on the Company's ability to raise capital to, at a minimum, meet its corporate maintenance requirements. If the Company is able to acquire IOWC or another ongoing business and/or technology that must be exploited, it would need additional capital until and unless that prospective operation is able to generate positive working capital sufficient to fund the Company's cash flow requirements from operations.

Cash and cash equivalents totaled $647,037 at March 31, 2006. The Company had no revenues in the three-month period ended March 31, 2006 and was forced to consume cash on hand to fund operations. The Company will be required to raise additional capital to sustain basic operations through the remainder of 2006 and to consummate the transactions with IOWC. While the Company is actively seeking investments through private investors and other parties, there is no assurance that the Company will be able to raise additional capital for the entire period required.

The Company has approximately $2,740,570 aggregate principal amount of its promissory notes that mature at various times during 2006. The Company does not presently have funds sufficient to repay these obligations as they mature. Even though the terms of all of these notes permit the noteholder to convert the notes into shares of our common stock, until the Company's stockholders approve an amendment to the Company's charter to increase the number of authorized shares of common stock, the Company will be unable to fulfill its obligations to all noteholders to permit the conversion into common stock of amounts due pursuant to the terms of the notes. In the event that the Company has not raised further capital prior to the maturity dates of the convertible notes, the Company would be in default of those notes if its stockholders have not formally approved an increase in the number of authorized common shares, or unless the Company is able to refinance or renegotiate the terms of these notes. No financing is in place at present, and it is unknown if any financing will be in place in the future, which would permit the Company to repay these notes in full as they mature.

The financial statements accompanying this Annual 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, the Company had a net loss of $441,638 for the three-month period ended March 31, 2006, negative cash flow from operating activities of $413,925 for the three-month period ended March 31, 2006, and an accumulated deficit of $28,670,825 as of March 31, 2006. Also, as of March 31, 2006, the Company had limited liquid and capital resources. The foregoing factors raise substantial doubt about the Company's ability to continue as a going concern. Ultimately, the Company's ability to continue as a going concern is dependent upon its ability to attract new sources of capital, establish an acquisition or reverse merger candidate with continuing operations, such as IOWC, attain a reasonable threshold of operating efficiencies and achieve profitable operations. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

NUWAY MEDICAL INC. AND SUBSIDIARY
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

Organization

The Company was initially organized as Repossession Auction, Inc. under the laws of the State of Florida in 1989. In 1991, the Company merged into a Delaware corporation bearing the same name. In 1994, the Company's name was changed to Latin American Casinos, Inc. to reflect its focus on the gaming and casino business in South and Central America, and in 2001 the Company changed its name to NuWay Energy, Inc. to reflect its new emphasis on the oil and gas development industry. During October 2002, the Company's name was changed to NuWay Medical, Inc. coincident with the divestiture of its non-medical assets and the retention of new management.

Note 3. Due to President - Unreimbursed business expenses

In 2003 and 2004 the Company's President, Dennis Calvert, loaned money to the Company by paying from his personal funds certain of the Company's expenses. A significant portion of these personal funds were obtained by Mr. Calvert by refinancing his primary residence and cashing out equity thereon. On March 7, 2005, the Company and Mr. Calvert agreed such that the $101,770 still outstanding and owed by the Company to Mr. Calvert will be repaid under the terms of a promissory note bearing interest of 10% per annum, requiring monthly payments and maturing on January 15, 2006. The outstanding loan balance was paid off entirely in January of 2006 and totals zero as of March 31, 2006.

As of March 31, 2006, the Company had accrued an expense related to the unpaid accrued compensation due its president, Mr. Calvert, in the amount of $333,664.

Note 4. Sale of Unregistered Securities

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, on the basis of $.005 per share, 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.

The Company's payment obligations under the First Offering Note may be accelerated upon the following events: (i) the sale of the Company's assets outside the ordinary course of business; (ii) a breach of the representations and warranties contained within the evidencing the loan; (iii) the failure to timely pay the note; (iv) the Company's default in any other loan obligation greater than $100,000; (v) the Company's dissolution, liquidation, merger, consolidation, bankruptcy, or future insolvency; and (vi) the commencement of any suit that threatens to have a material adverse effect on the Company, including the entry of a final judgment or settlement in excess of $100,000.

Second Offering

In January 2005, pursuant to a private offering that commenced in that month and terminated in August 2005 (the "Second Offering"), the Company received gross and net proceeds of $75,000 from two outside investors and issued its convertible promissory note (the "Second Offering Note") due and payable one year from the date of issuance. The Second Offering Note bears interest at a rate of 10% per annum, payable on the maturity date. The Second Offering Note can be converted, in whole or in part, into shares of the Company's common stock, on the basis ranging from $.005 to $0.016 per share, 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.

The Company's payment obligations under the Second Offering Note may be accelerated upon the following events: (i) the sale of the Company's assets outside the ordinary course of business; (ii) a breach of the representations and warranties contained within the evidencing the loan; (iii) the failure to timely pay the note; (iv) the Company's default in any other loan obligation greater than $100,000; (v) the Company's dissolution, liquidation, merger, consolidation, bankruptcy, or future insolvency; and (vi) the commencement of any suit that threatens to have a material adverse effect on the Company, including the entry of a final judgment or settlement in excess of $100,000.

In February 2005, the Company received gross proceeds of $51,000 and net proceeds of $47,000 from four outside investors and issued Second Offering Notes which allow conversion into an aggregate total of 5,558,036 shares of common stock (at a conversion price of approximately $0.009 per common share).

In April 2005, the Company received gross proceeds of $29,000 and net proceeds of $23,750 from two outside investors and issued Second Offering Notes which allow conversion into an aggregate total of 2,500,000 shares of common stock (at a conversion price of approximately $0.009 per common share).

In May 2005, the Company received gross and net proceeds of $50,000 and $47,500 from an outside investor and issued a Second Offering Note which allows conversion into a total of 7,142,857 shares of common stock (at a conversion price of $0.007 per common share).

In June 2005, the Company received gross and net proceeds of $256,120 from eleven outside investors and issued Second Offering Notes which allow conversion into an aggregate total of 28,612,000 shares of common stock (at a weighted average conversion price of approximately $0.009 per common share).

Also in July 2005, the Company received gross proceeds of $10,000 and net proceeds of $9,500 from an outside investor and issued a Second Offering Note which allows conversion into an aggregate total of 625,000 shares of common stock (at a conversion price of $0.016 per common share).

In August 2005, the Company received gross proceeds of $260,000 and net proceeds of $252,000 from five outside investors and issued Second Offering Notes which allow conversion into an aggregate total of 16,250,000 shares of common stock (at a conversion price of $0.016 per common share).

Third Offering

Pursuant to another private offering that 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 conversion price of $0.025 per share. The Third Offering terminated on February 21, 2006, by which date the Company had raised $1,102,000 gross and net proceeds. Of this amount, $802,500 gross and net proceeds were raised during the three-month period ended March 31, 2006, and the balance had been raised during 2005.

The Third Offering Notes may not be converted by either the Company or the holder unless and until each of the following events has first occurred: (i) the Company's stockholders have approved an increase in the number of shares of common stock authorized by the Company's Certificate of Incorporation in an amount not less than the amount required to permit all notes and warrants issued in this series to be converted into shares of the Company's Common Stock as provided herein, at a validly held meeting of stockholders at which a quorum is

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NUWAY MEDICAL INC. AND SUBSIDIARY
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

present and acting throughout; and (ii) the Company has filed with the Secretary of State of State of Delaware a Certificate of Amendment to the Company's Certificate of Incorporation to amend its Certificate of Incorporation to increase the number of shares of common stock authorized by the Company's Certificate of Incorporation.

Purchasers of the Third Offering Notes received, for no additional consideration, a stock purchase warrant (the "Third Offering 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 Third Offering Note is convertible. The Third Offering Warrant is exercisable at an initial price of $0.05 per Share and will expire on January 31, 2008.

Other Issuances

In March 2006, the Company issued 120,000 shares of common stock in connection with the conversion, at the request of one stockholder, of 120,000 shares of convertible preferred stock. 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.

Until the Company's stockholders approve an amendment to the Company's charter to increase the number of authorized shares of common stock, the Company will be unable to fulfill its obligations to all convertible noteholders to permit the conversion into common stock of amounts due pursuant to the terms of the convertible notes. In the event that the Company has not raised further capital prior to the maturity dates of the convertible notes, the Company would be in default of those notes if its stockholders have not formally approved an increase in the number of authorized common shares. The Company is not, at this time, in default of the convertible notes

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NUWAY MEDICAL INC. AND SUBSIDIARY
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

Note 5. Execution of Letter of Intent

On July 25, 2005, the Company and IOWC Technologies, Inc. ("IOWC") signed a binding letter of intent pursuant to which the Company will acquire certain assets, including intellectual property, from IOWC, and IOWC will receive approximately 51% of the issued and outstanding stock of the Company on an after-issued basis. Given the numerous significant conditions which must be satisfied prior to the closing of the transactions, there can be no assurance that the transactions will be consummated as presently envisioned.

Note 6. Extension of Augustine Loan

On July 29, 2005, the Company and the Augustine Fund finalized the terms of an amendment to the Augustine Loan and executed formal documentation, in which the parties agreed to further extend the maturity date to May 2006. In exchange, the Company issued a warrant that gives the Augustine Fund the right to purchase 8,000,000 shares of the Company's common stock at $0.005 per share for a period of five years.

Item 2. Management's Discussion and Analysis

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

- business and acquisition plans, including the completion of previously-announced transactions;
- financing plans;
- general and administrative expenses;
- liquidity and sufficiency of existing cash; and
- the outcome of pending or threatened litigation.

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

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 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 below under the heading "Risk Factors" in our Annual Report on Form 10-KSB for the year ended December 31, 2005. All forward-looking statements included in this document are based on information available to us on the date hereof. We assume no obligation to update any forward-looking statements.

Unless otherwise expressly stated herein, all statements, including forward-looking statements, set forth in this Form 10-QSB are as of March 31, 2006, and we undertake no duty to update this information.

Overview

The Company had no continuing business operations as of March 31, 2006. The Company operated as a shell company during the three-month period ended March 31, 2006, and operations primarily consisted of the Company seeking funding, maintaining the corporate entity, complying with the reporting and other requirements of the Securities Exchange Commission (the "SEC"), engaging in initial marketing activities for the BioLargo Technology (as defined below), and planning for the consummation of certain proposed transactions, as described below.

On July 25, 2005, the Company executed a letter of intent ("LOI") with IOWC Technologies, Inc. ("IOWC"), pursuant to which the Company will acquire certain of BioLargo's assets (the "Purchased Assets"), consisting of certain intellectual property, including two United States patents (collectively, the

"BioLargo Technology"), and two license and/or distributor agreements pursuant to which IOWC has licensed the BioLargo Technology for use in products designed for distribution in the food, medical and biohazardous material transportation industries. All assets not constituting the Purchased Assets will remain the property of BioLargo following the closing. The Company will not assume any liabilities of BioLargo.

The parties also agreed that on or prior to the closing, they would enter into a definitive asset purchase agreement (the "Asset Purchase Agreement"), and other agreements, including a research and development agreement (the "R&D Agreement"), to effect the transactions (the "Transactions") on or prior to the closing. Pursuant to the R&D Agreement, the Company will pay BioLargo a monthly fee to conduct research to further develop the existing BioLargo Technology and products based on the existing and new technologies.

The LOI also requires the Company to raise sufficient funds to (i) cover the costs of the transactions, (ii) three months post-closing operating expenses, the latter of which is estimated at approximately $300,000 and (iii) provide interim funding to BioLargo on a best efforts basis and in amounts agreed between the parties in an aggregate amount not to exceed $1,000,000.

The LOI further provides that, at the Closing, the Company and Dennis Calvert, the President and CEO of the Company, will enter into an employment agreement for a term of five years, providing Mr. Calvert with a monthly salary of $15,400 for 2006, and a 10% increase in his monthly salary for each calendar year thereafter.

It is anticipated that the present management of the Company will remain in place after the closing and that Mr. Code will become the Company's Chief Technology Officer. In connection therewith, Mr. Code will enter into an employment agreement with the Company (the "Code Employment Agreement").

In connection with the previously described transactions and in partial implementation thereof, on December 31, 2005, the Company executed a Marketing and Licensing Agreement (the "M&L Agreement") with BioLargo. Pursuant to the M&L Agreement, the Company, through its wholly-owned subsidiary BioLargo Life Technologies, Inc., a California corporation ("BLTI"), has the right ("Rights") to develop, market, sell and distribute products that were developed, and are in development, by BioLargo using the BioLargo Technology.

BioLargo also assigned to BLTI its rights and obligations under two license agreements, including BioLargo, LLC, in which BioLargo has a 20% interest, as well as its rights set forth in a LOI with another entity (collectively, the "Assigned Agreements").

The M&L Agreement provides that the Company is to receive any and all royalties, payments, license fees, and other consideration generated by the Assigned Agreements. As part of the M&L Agreement, IOWC has agreed to transfer its 20% interest in BioLargo, LLC to the Company. In consideration of the Rights and the Assigned Agreements, the Company has agreed to issue IOWC a total of 38% of its common stock.

The parties further agreed to enter into additional agreements in furtherance of the July 2005 LOI between the Company and IOWC, including (i) the Asset Purchase Agreement, whereby the Company would acquire the two U.S. patents held by IOWC; (ii) the R&D Agreement, with a company to be managed and controlled by Mr. Code; and (iii) the Code Employment Agreement. In consideration of the Asset Purchase Agreement, the Company has agreed to issue IOWC an additional one percent of its common stock. In consideration of the R&D

Agreement and Code Employment Agreement, the Company has agreed to issue to Code individually 17.6% of its common stock. As a result of the foregoing transactions, the Company will issue a total of 56.6% of its common stock to BioLargo, calculated on January 1, 2006. The parties further agreed that to the extent that the Company issues additional equity in connection with one or more financing transactions after January 1, 2006, then the percentage of equity to be issued to BioLargo would be diluted pro rata.

The Code Employment Agreement is anticipated to provide that Mr. Code will be appointed Chief Technology Officer of BLTI, and receive a monthly salary of $15,400. As explained below, the Company is required to obtain the approval of its stockholders prior to the issuance of the common stock to IOWC required pursuant to the M&L Agreement.

The foregoing transactions are subject to approval by IOWC's board of directors and stockholders, approval by the Company's board of directors, and approval by the Company's stockholders 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;
- a reverse split of the Company's common stock; and
- the election of Mr. Code to the Company's board of directors.

In the event that the Company's stockholders do not approve the issuance of stock, the M&L Agreement shall terminate, and all rights granted to the Company shall revert to BioLargo.

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The closing of the transactions is subject to various conditions, including those described hereinabove, and conditions customary for transactions of this nature. The Company currently expects to close the transactions in the fourth quarter of 2006. However, given the numerous significant conditions which must be satisfied prior to the closing of the transactions, there can be no assurance that the transactions will be consummated as presently envisioned or at all.

The Company will need working capital resources to maintain the Company's status and to fund other anticipated costs and expenses during the year ending December 31, 2006 and beyond, including its obligations to IOWC. The Company's ability to continue as a going concern and to consummate the transactions with IOWC is dependent on the Company's ability to raise capital. If the Company is able to acquire IOWC, it will need additional capital until and unless that prospective operation is able to generate positive working capital sufficient to fund the Company's cash flow requirements from operations. The Company has commenced an offering of its convertible notes and warrants to provide such interim funding. See "Liquidity and Capital Resources" below.

Results of Operations

Revenue. The Company had no revenues from continuing operations during the three-month periods ended March 31, 2006 and 2005.

Selling, general and administrative expenses. Selling, general and administrative were $353,000 for the three-month period ended March 31, 2006, compared to $194,000 for the three-month period ended March 31, 2005. This increase is primarily attributable to the increase in consulting and legal expenses in the three-month period ended March 31, 2006 compared with the same period in 2005. The largest components of these expenses were:

The largest components of these expenses were:

a. Salaries and Payroll-Related Expenses: These expenses were $46,000 for the three-month period ended March 31, 2006, compared to $49,000 for the three-month period ended March 31, 2005, a decrease of $3,000.

b. Consulting Expenses: These expenses were $152,000 for the three-month period ended March 31, 2006, compared to $41,000 for the three-month period ended March 31, 2005, an increase of $111,000. The increase in the three-month period ended March 31, 2006 is attributable to the increase in the Company's need for outside consultants during that time.

c. Legal Expenses: These expenses were $87,000 for the three-month period ended March 31, 2006, compared to $51,000 for the three-month period ended March 31, 2005, an increase of $36,000. This increase is primarily due to the high level of legal services required during the three-month period ended March 31, 2006 with respect to the ongoing business relationship with IOWC.

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d. Independent Director Compensation: These expenses were $15,000 for the three-month period ended March 31, 2006, compared to $1,000 for the three-month period ended March 31, 2005, an increase of $14,000.

Net Loss. Net loss for the three-month period ended March 31, 2006 was $442,000, or $(0.01) per share. Comparatively, for the three-month period ended March 31, 2005, net loss was $244,000, or $(0.01) per share.

Liquidity and Capital Resources

General

Cash and cash equivalents totaled $647,037 at March 31, 2006. The Company had no revenues in the three-month period ended March 31, 2006 and was forced to consume cash on hand to fund operations. The Company's cash position is insufficient to meet its expenses or its obligations under the LOI with IOWC to acquire the BioLargo Technology. The Company will be required to raise additional capital to sustain basic operations through the remainder of 2006 and to consummate the transactions with IOWC.

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. The Company had a net loss of $441,638 for the three-month period ended March 31, 2006; a negative cash flow from operating activities of $413,925 for the three-month period ended March 31, 2006; and an accumulated deficit of $28,229,187 as of December 31, 2005, and $28,670,825 as of March 31, 2006.

As of March 31, 2006, the Company had limited liquid and capital resources although it is seeking acquisition opportunities. These factors raise substantial doubt about the Company's ability to continue as a going concern. Ultimately, the Company's ability to continue as a going concern is dependent upon its ability to attract new sources of capital, establish an acquisition or reverse merger candidate with continuing operations, such as IOWC, attain a reasonable threshold of operating efficiencies and achieve profitable operations. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

The Company has approximately $2,740,570 aggregate principal amount of its promissory notes that mature at various times during 2006. The Company does not presently have funds sufficient to repay these obligations as they mature. Even though the terms of all of these notes permit the noteholder to convert the notes into shares of our common stock, until the Company's stockholders approve an amendment to the Company's charter to increase the number of authorized shares of common stock, the Company will be unable to fulfill its obligations to all noteholders to permit the conversion into common stock of amounts due pursuant to the terms of the notes. In the event that the Company has not raised further capital prior to the maturity dates of the convertible notes, the Company would be in default of those notes if its stockholders have not formally approved an increase in the number of authorized common shares, or unless the Company is able to refinance or renegotiate the terms of these notes. No financing is in place at present, and it is unknown if any financing will be in place in the future, which would permit the Company to repay these notes in full as they mature.

The Company has obtained the consent of all of its noteholders to extend the maturity date of those convertible notes maturing on various dates through November 2006, until after the Company has held a stockholders' meeting, currently anticipated for the fourth quarter of 2006, to approve, among other things, an increase in the authorized capital stock of the Company and thereby permit the conversion of such notes into shares of the Company's common stock.

Pursuant to a private offering that commenced in September 2005 and terminated in February 2006, the Company offered up to $2,000,000 of its convertible notes (the "Third Offering Notes"), which are due and payable on January 31, 2007. The Third Offering Notes bear interest at a rate of 10% per annum, payable on the maturity date, and can be converted, in whole or in part, into shares of the Company's common stock, on a basis of $0.025 per common share, at any time prior to maturity by either the Company or the holder. Purchasers of the Third Offering Notes will receive, for no additional consideration, a stock purchase warrant (a "Third Offering 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 Third Offering Note is convertible, at an initial price of $0.05 per share, with an expiration of January 31, 2008. The offering terminated on February 21, 2006, by which date the Company had raised $1,102,000 gross and net proceeds. Of this amount, $802,500 gross and net proceeds were raised during the three-month period ended March 31, 2006, and the balance had been raised during 2005. See Part II, Item 2, "Sales of Unregistered Securities".

The Company will be required to raise additional capital during 2006 to sustain its operations and meet its liabilities as they become due for the next twelve months, as well as to consummate the transactions with IOWC and fund the operations of the Company after the transactions are consummated. While the Company is actively considering investment alternatives for the Company's longer-term financial requirements, there is no assurance that the Company will be able to raise any additional capital. It is unlikely that the Company will be able to qualify for bank debt until such time as the Company is able to demonstrate the financial strength to provide confidence for a lender.

Significant debt obligations of the Company at March 31, 2006 included:

(i) $420,000 due to Augustine II, LLC (the "Augustine Fund"), together with accrued but unpaid interest, described in more detail below;

(ii) a $1,120,000 note payable which was purchased in March 2003 by New

Millennium Capital Partners, LLC ("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, described in more detail below;

(iii) amounts owed to Mr. Calvert personally in the aggregate amount of approximately $334,000, as described below;

(iv) convertible promissory notes to various investors in the aggregate principal amount of $816,000, plus accrued interest;

(v) approximately $21,000 outstanding remaining on a settlement agreement with former convertible debenture holders; and

(vi) $35,000 in remaining balance due to a former advisory board member, from a promissory note dated November 20, 2003 in the original principal amount of $65,000.

For the three-month period ended March 31, 2006, there was $667,000 of accrued interest recorded related to these obligations.

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 6,158,381 shares of the Company's common stock at an exercise price of $0.16 per share. 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 Capital Partners LLC ("New Millennium"), a company controlled and owned by the Company's president, Dennis Calvert, and members of his family, pledged 2.5 million shares of the Company's common stock owned by New Millennium, and, in addition, the Company has granted the Augustine Fund a security interest in its 51% membership ownership interest in NuWay Sports. As a result, the Company will need to consent of the Augustine Fund to release its security interest in NuWay Sports if the Company is able to sell NuWay Sports.

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 6,158,381 shares of the Company's common stock were re-priced to an exercise price of $.035 per share. 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 July 29, 2005, the Company and the Augustine Fund finalized the terms of an amendment to the Augustine Loan and executed formal documentation, in which the parties agreed to further extend the maturity date to May 2006. In exchange, the Company issued a warrant that gives the Augustine Fund the right to purchase 8,000,000 shares of the Company's common stock at $0.005 per share for a period of five years. Accordingly, as of March 31, 2006, the principal amount of the loan, together with approximately $183,209 in accrued but unpaid interest, had not been repaid.

Obligation to New Millennium

In conjunction with the acquisition from Med Wireless of the license for the its technology in 2002, the Company assumed a $1,120,000 note (the "Note") with interest at 10% per annum payable by Med Wireless to Summitt Ventures, Inc. ("Summitt Ventures"). The Note is secured by the Company's assets and was originally due on June 15, 2003. It was sold, as part of a series of transactions with Mark Anderson, a former consultant and former principle stockholder of the Company, and his affiliated entities, to New Millennium, an entity owned and controlled by the Company's president, Dennis Calvert, and certain members of his family, in March 2003.

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Since New Millennium purchased the Note, the Company has attempted multiple times to convert the Note, but has been unable to obtain the required stockholder vote, due to a lack of quorum, to do so. New Millennium orally agreed with the Company to extend the maturity date of the Note to a first payment due October 1, 2003 in the amount of $100,000 and the balance of the principal due on April 1, 2004. The Company was unable to make the $100,000 payment on the Note on the extended due date of October 1, 2003.

In October 2004, New Millennium agreed to extend the maturity of the Note indefinitely until the Company acquired assets or an operating business that would allow it to meet its obligations on the note. Accordingly, as of March 31, 2006, the principal amount of the loan, together with approximately $345,954 in accrued but unpaid interest, had not been repaid.

Under the terms of the New Millennium Note, it is possible that Summitt Ventures, and Mr. Anderson's affiliated entities may have a claim to reacquire the shares of the Company's common stock that were sold to New Millennium. The New Millennium Note is purportedly secured by the purchased shares of the

Company's common stock; however, New Millennium and Mr. Calvert believe that Mr. Anderson and his affiliates have not perfected their security interest in those shares. In addition, the Augustine Fund is the pledgee of 2,500,000 of those shares and has physical possession of those shares.

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

Obligations to Dennis Calvert

In 2003 and 2004 the Company's President, Dennis Calvert, loaned money to the Company by paying from his personal funds certain of the Company's expenses. A significant portion of these personal funds was obtained by Mr. Calvert by refinancing his primary residence and cashing out equity thereon. On March 7, 2005, the Company and Mr. Calvert agreed such that the $101,770 still outstanding and owed by the Company to Mr. Calvert will be repaid under the terms of a promissory note bearing interest of 10% per annum, requiring monthly payments and maturing on January 15, 2006.

As of March 31, 2006, the Company had repaid this entire loan. As of March 31, 2006, the Company had accrued an expense related to the unpaid accrued compensation due Mr. Calvert in the amount of $333,664.

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Critical Accounting Policies

The SEC recently issued Financial Reporting release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" ("FRR 60"), suggesting companies provide additional disclosure and commentary on their most critical accounting policies. In FRR 60, the SEC defined the most critical accounting policies as the ones that are most important to the portrayal of a company's financial condition and operating results, and require management to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, the Company's most critical accounting policies include: non-cash transactions and compensation valuations that affect the total expenses reported in the current period and/or values of assets received in exchange.

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.

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.

Item 3. Controls and Procedures

(a) Evaluation of disclosure controls and procedures: Our management evaluated, with the participation of 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. 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

In June 2002, Geraldine Lyons, the Company's former Chief Financial Officer, sued the Company and the Company's former president Todd Sanders, for breach of her employment contract. The lawsuit was brought in the Circuit Court of the 11th Judicial Circuit in Miami-Dade County in Florida. Ms. Lyons seeks approximately $25,000 due under the contract and the issuance of 100,000 shares of common stock, with a guarantee that the stock could be sold by Ms. Lyons for $300,000. Ms. Lyons alleges that additional funds are due under her employment contract; that the contract requires the Company guarantee that she can sell for $300,000 the 100,000 shares of stock the Company is required to issue her; and, that Mr. Sanders promised to purchase from her 100,000 shares of Company common stock held by her at the price of $4.00 per share.

The Company has counter-sued Ms. Lyons for breach of fiduciary duty, fraud, violation of Section 12(a)(2) of the Securities Act of 1933, violation of Section 517.301 of the Florida Statutes, negligent misrepresentation, conversion and unjust enrichment resulting from the required restatement of the Company's financial statements for the years ended December 31, 2000 and December 31, 1999. The restatements corrected the previous omission of certain material expenses related primarily to compensation expense arising from warrants issued and repriced stock options, as well as other errors.

The case is ongoing at this time, although it has not been vigorously prosecuted by Ms. Lyons or the Company, in the Company's case primarily because the Company had lacked the resources to do so. The Company entered into an agreement ("Legal Defense Agreement") in December 2004 such that Augustine II, LLC ("Augustine Fund") would pay for the legal expenses associated with the Company's defense and affirmative claims in this lawsuit (with the right to withdraw funding at any time), and in exchange would share any net proceeds awarded to the Company pursuant to a settlement or judgment. The sharing arrangement provides that Augustine Fund will recover first, out of any money available from recovery, its legal and out of pocket expenses related to the lawsuit; second, 85% of any additional amounts recovered up to $500,000; and third, 50% of amounts recovered beyond $500,000. While the Company believes that it has meritorious positions in this litigation, given the inherent nature of litigation, it is not possible to predict the outcome of this litigation or the impact it would have on the Company.

In May 2004, the Company was sued by Flight Options, Inc. ("Flight Options"), a jet plane leasing company, in the Superior Court of Orange County California. The lawsuit alleges that the Company owes Flight Options approximately $418,300, pursuant to a five-year lease assigned to the Company by the Company's former president Todd Sanders, from his corporation, Devenshire Management Corporation ("Devenshire"). Management of the Company believes that the assignment of the lease was not properly authorized or approved by the Company, and that by Mr. Sander's failure to identify the lease in a December 2002 settlement agreement with the Company, he breached the terms of that settlement agreement and, pursuant to the settlement agreement, must indemnify the Company for any losses owed to Flight Options. The Company filed a cross-complaint against Mr. Sanders and Devenshire seeking indemnity and alleging Mr. Sander's breached his fiduciary duties in connection with the assignment of the lease. The Company's Legal Defense Agreement with the Augustine Fund applies also to the Flight Options litigation.

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On March 17, 2005, the Company settled with Flight Options pursuant to a stipulation that would have allowed the Company to pay Flight Options $100,000 on or before August 5, 2005; if $100,000 was not paid by August 5, 2005, Flight Options could file a judgment against the Company for $163,310. The Company did not make a payment on or before August 5, 2005. Subsequently, the parties agreed that the Company would pay Flight Options a total of $116,000, which amount was paid. In exchange, Flight Options dismissed the case.

At about the time of the settlement with Flight Options, the Company, Mr. Sanders and Devenshire agreed to submit the matters in the cross-complaint, including the indemnity claim, to binding arbitration. On March 7, 2006, an arbitrator issued a binding award in favor of the Company and against Mr. Sanders for $120,000.

Legal Fees in the matter have been paid by Augustine, pursuant to the Legal Defense Agreement between Augustine and the Company. In January 2006, Augustine and the Company agreed to modify the terms of the Legal Defense Agreement to allow for both parties to share in any amounts which might be recovered from Sanders, on a percentage basis equal to the respective costs incurred by each party. Legal Fees incurred by Augustine are estimated to be approximately $81,000 as of February 2006, but will likely increase.

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. Changes in Securities

Pursuant to a private offering that commenced in September 2005 and terminated in February 2006, during the three-month period ended March 31, 2006, the Company sold an aggregate principal amount of $802,500 of its Third Offering Notes to 44 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 conversion price of $0.025 per share.

The Third Offering Notes may not be converted by either the Company or the holder unless and until each of the following events has first occurred: (i) the Company's stockholders have approved an increase in the number of shares of common stock authorized by the Company's Certificate of Incorporation in an amount not less than the amount required to permit all notes and warrants issued in this series to be converted into shares of the Company's Common Stock as provided herein, at a validly held meeting of stockholders at which a quorum is present and acting throughout; and (ii) the Company has filed with the Secretary of State of State of Delaware a Certificate of Amendment to the Company's Certificate of Incorporation to amend its Certificate of Incorporation to increase the number of shares of common stock authorized by the Company's Certificate of Incorporation.

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Purchasers of the Third Offering Notes received, for no additional consideration, a Third Offering 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 Third Offering Note is convertible. The Third Offering Warrant is exercisable at an initial price of $0.05 per share and will expire on January 31, 2008.

In March 2006, the Company issued 120,000 shares of common stock in connection with the conversion, at the request of one stockholder, of 120,000 shares of convertible preferred stock.

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.

Until the Company's stockholders approve an amendment to the Company's charter to increase the number of authorized shares of common stock, the Company will be unable to fulfill its obligations to all convertible noteholders to permit the conversion into common stock of amounts due pursuant to the terms of the Company's various convertible notes. In the event that the Company has not raised further capital prior to the maturity dates of the convertible notes, the Company would be in default of those notes if its stockholders have not formally approved an increase in the number of authorized common shares. The Company is not, at this time, in default of the convertible notes.

Item 6. Exhibits

The exhibits listed below are attached hereto and filed herewith:

Exhibit No.	Description
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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SIGNATURES

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.

NUWAY MEDICAL, INC.

Date: May 15, 2006

By: /s/ Dennis Calvert
Dennis Calvert
President, Chief Executive Officer
and Interim Chief Financial Officer

EXHIBIT INDEX

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