BIOLARGO, INC.
Form 10-Q
November 15, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011.

or

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

For the transition period from to

Commission File Number 000-19709

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

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

16221 Heron Avenue
La Mirada, California 90638
(Address, including zip code, of principal executive offices)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

The number of shares of the Registrant’s Common Stock outstanding as of November 11, 2011 was 58,323,182 shares.

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PART I

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

BIOLARGO, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2010 AND SEPTEMBER 30, 2011

	December 31, 2010	September 30, 2011 (unaudited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$425,069	$189,648
Accounts receivable	16,216	10,334
Inventory	7,813	69,429
Prepaid expenses	3,815	1,346
Total current assets	452,913	270,757
FIXED ASSETS		
Equipment, net	6,826	4,034
OTHER ASSETS		
Deposit	—	26,345
TOTAL ASSETS	$459,739	$301,136
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$710,419	$750,039
Convertible notes payable, current portion	1,636,625	1,393,410
Discount on convertible notes, current portion net of amortization	(211,364)	(106,189)
Note payable	120,000	100,000
Deferred revenue	115,500	60,848
Deposit	17,500	100,000
Total Current Liabilities	2,388,680	2,298,108
LONG-TERM LIABILITIES		
Convertible notes payable, net of current portion	1,120,185	438,775
Discount on convertible notes, net of current portion and amortization	(456,243)	(137,204)

Total Long-term Liabilities	663,942	301,571
TOTAL LIABILITIES	3,052,622	2,599,679
COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS (Notes 11, 12 and 13)		
STOCKHOLDERS' EQUITY (DEFICIT)		
Convertible Preferred Series A, $.00067 Par Value, 50,000,000 Shares Authorized, -0- Shares Issued and Outstanding, at December 31, 2010 and September 30, 2011.	—	—
Common Stock, $.00067 Par Value, 200,000,000 Shares Authorized, 51,782,619 and 56,732,582 Shares Issued, at December 31, 2010 and September 30, 2011.	34,734	38,050
Additional Paid-In Capital	60,883,288	64,218,306
Accumulated Deficit	(63,510,905)	(66,554,899)
Total Stockholders' Equity (Deficit)	(2,592,883)	(2,298,543)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$459,739	$301,136

See accompanying notes to unaudited condensed consolidated financial statements

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BIOLARGO, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2010 AND 2011
(unaudited)

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2010 (unaudited)	2011 (unaudited)	2010 (unaudited)	2011 (unaudited)
Revenue				
License fee	$ 2,500	$ 109,720	$ 5,000	$ 115,500
Product	40,335	10,805	129,360	26,759
Total revenue	42,835	120,525	134,360	142,259
Cost of goods sold	40,899	12,683	104,689	36,270
Gross Margin	1,936	107,842	29,671	105,989
Costs and expenses				
Selling, general and administrative	811,895	580,507	3,204,597	2,453,038
Research and development	17,401	9,035	88,893	48,325
Amortization and depreciation	2,391	1,335	7,173	6,532
Total costs and expenses	831,687	590,877	3,300,663	2,507,895
Loss from operations	(829,751)	(483,035)	(3,270,992)	(2,401,906)
Interest expense	(465,646)	(228,639)	(1,329,054)	(642,088)
Other Income	123,638	—	123,638	—
Net other expense	(342,008)	(228,639)	(1,205,416)	(642,088)
Net loss	$ (1,171,759)	$ (711,674)	$ (4,476,408)	$ (3,043,994)
Loss per common share – basic and diluted				
Loss per share	$ (0.03)	$ (0.01)	$ (0.10)	$ (0.06)
Weighted average common share equivalents outstanding	43,653,117	56,340,625	44,487,528	54,826,213

See accompanying notes to unaudited condensed consolidated financial statements

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BIOLARGO, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2011 (UNAUDITED)

	Common Stock Number of Shares	Common Stock Par Value $.00067	Additional Paid-In Capital	Accumulated Deficit	Total
BALANCE DECEMBER 31, 2010	51,782,619	$ 34,734	$ 60,883,288	$ (63,510,905)	$ (2,592,883)
Conversion of the 2008 Spring Notes and accrued interest obligations	733,108	492	989,184	—	989,676
Conversion of the accrued interest related to the Spring 2009 Notes	177,673	89	78,916	—	79,005
Conversion of the accrued interest related to the Spring 2010 Notes	100,092	76	46,910	—	46,986
Issuance of stock for cash received in Summer 2010 PPM	350,000	236	104,764	—	105,000
Issuance of stock for cash received in Winter 2011 PPM	2,765,070	1,872	965,896	—	967,768
Issuance of stock for cash received in Fall 2011 PPM	142,858	96	49,904	—	50,000
Fair value of warrant extension	—	—	55,166	—	55,166
Issuance of stock for services to consultants	90,918	59	45,878	—	45,937
Issuance of stock for services to Officers	590,244	396	241,602	—	241,998
Issuance of stock options to consultants	—	—	540,018	—	540,018
Issuance of stock options to officer and Board of directors	—	—	216,780	—	216,780
Net loss for the nine-month period ended September 30, 2011	—	—	—	(3,043,994)	(3,043,994)
BALANCE SEPTEMBER 30, 2011	56,732,582	$ 38,050	$ 64,218,306	$ (66,554,899)	$ (2,298,543)

See accompanying notes to unaudited condensed consolidated financial statements

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BIOLARGO, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2010 AND 2011
(unaudited)

	For the nine-month periods ended September 30, 2010	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$ (4,476,408)	$ (3,043,994)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Non-cash accrued option compensation expense	880,924	—
Non-cash interest expense related to the amortization of the fair value of warrants issued in conjunction with our convertible notes	1,060,154	481,303
Non-cash expense related to options issued to officers and board of directors	408,040	135,905
Non-cash expense related to stock issued to our board of directors for settlement of obligations	135,457	163,998
Non-cash expense related to options issued to consultants	269,052	503,813
Non-cash expense related to stock issued to consultants	194,908	45,937
Issuance of stock for interest incurred during the nine-month period	—	61,739
Amortization and depreciation expense	7,173	6,532
Increase (decrease) in cash from change in:		
Accounts receivable	(1,543)	5,882
Inventory	(5,506)	(61,616)
Prepaid expenses	771	2,469
Other assets	—	(26,345)
Accounts payable and accrued expenses	696,771	362,078
Deferred revenue	118,000	(54,652)
Deposits	—	82,500
Net Cash Used In Operating Activities	(712,207)	(1,334,451)
CASH FLOWS FROM INVESTING ACTIVITIES		
Funds used to purchase equipment	—	(3,740)
Net Cash Used In Investing Activities	—	(3,740)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Summer 2010 PPM	305,000	105,000

Proceeds from Winter 2011 PPM		—		967,770
Proceeds from Fall 2011 PPM		—		50,000
Proceeds from convertible notes		438,855		—
Proceeds from note payable		100,000		—
Payments on note payable		(20,000)		(20,000)
Net Cash Provided By Financing Activities		823,855		1,102,770
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		111,648		(235,421)
CASH AND CASH EQUIVALENTS — BEGINNING		135,350		425,069
CASH AND CASH EQUIVALENTS — ENDING	$	246,998	$	189,648

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SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION			
Cash Paid During the Period for:			
Interest	$	—	$—
Taxes	$	3,000	$4,868
SUPPLEMENTAL DISCLOSURES OF NON-CASH OPERATING ACTIVITIES:			
Conversion of accrued expenses to shares of the Company's common stock:			
Related party obligations – New Millenium	$	150,000	—
Board of Directors and officer obligations	$	344,166	—
Consultant obligations	$	147,712	$78,000
Option or warrant issued to purchase shares of the Company's common stock:			
In exchange of consultant obligations	$	214,526	$192,834
In exchange of board of director and officer obligations	$	149,240	$88,292
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING AND INVESTING ACTIVITIES:			
Conversion of Noteholders to shares of the Company's Common stock:			
Conversion of the 2007 Notes convertible note payable obligations	$	968,000	$—
Convertible Noteholder's accrued and unpaid interest	$	417,214	$191,402
Conversion of the 2008 Spring Notes and related accrued interest	$	—	$989,676
Fair value of warrants issued:			
Fair value of the issuance of warrants in conjunction with convertible note offerings	$	430,327	
Issuance of warrants in conjunction with note payable	$	20,000	$—
Issuance of a warrant to a consultant for services provided	$	25,000	$—
Fair value of warrants in conjunction with a convertible note offering repricing in 2010 and extension in 2011	$	277,992	$55,166

See accompanying notes to unaudited condensed consolidated financial statements

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BIOLARGO, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Business and Organization

Outlook

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of our business. As reflected in the accompanying financial statements, we had a net loss of $3,043,994 for the nine-month period ended September 30, 2011, and at September 30, 2011 we had current assets of $270,757 and an accumulated stockholders' deficit of $66,554,899. The foregoing factors raise substantial doubt about our ability to continue as a going concern. Ultimately, our ability to continue as a going concern is dependent upon our ability to attract significant new sources of capital, attain a reasonable threshold of operating efficiencies and achieve profitable operations by licensing or otherwise commercializing products incorporating our BioLargo technology. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

We have been, and anticipate that we will continue to be, limited in terms of our capital resources. Our total cash and cash equivalents were $189,648 at September 30, 2011. We generated revenues of $142,259 in the nine-month period ended September 30, 2011, which amount was not sufficient to fund our operations, and we incurred negative cash flow from operating activities of $1,334,451 for the nine-month period ended September 30, 2011. We had negative working capital of $2,027,351 at September 30, 2011. We generally have not had enough cash or sources of capital to pay our accounts payable and expenses as they arise, and have relied on the issuance of stock options and common stock, as well as extended payment terms with our vendors, to continue to operate. We will be required to raise substantial additional capital to expand our operations, including without limitation, hiring additional personnel, additional scientific and third-party testing, costs associated with obtaining regulatory approvals and filing additional patent applications to protect our intellectual property, and possible strategic acquisitions or alliances, as well as to meet our liabilities as they become due for the next 12 months.

As of September 30, 2011, we had $1,932,185 aggregate principal amount outstanding on various promissory notes. We may pay the principal and interest due on these notes in cash or in stock, at our option, at maturity. In addition, as of September 30, 2011, we had $750,039 of outstanding accounts payable and accrued expenses, of which $127,014 relates to interest due on outstanding promissory notes, and $623,025 relates to accrued and unpaid payables. (See Note 10.)

During the nine-month period ended September 30, 2011, we received $1,122,770 pursuant to our private securities offerings. (See Note 5.) Additionally, during March 2011, pursuant to the Central Garden & Pet Company transaction, we received $100,000 deposit for future orders. (See Note 3.)

In the opinion of management, the accompanying condensed consolidated balance sheets and related condensed consolidated 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. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Actual results and outcomes may differ from management's estimates and assumptions. Estimates are used when accounting for stock-based transactions, account payables and accrued expenses and taxes, among others.

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(UNAUDITED)

The unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to Rule 8-03 of Regulation S-X under the Securities Act of 1933, as amended. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. We are still operating in the early stages of the sales and distribution process, and therefore our operating results for the nine-month period ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ended December 31, 2011, or for any other period. These unaudited condensed consolidated financial statements and notes should be read in conjunction with the Company's audited financial statements and accompanying notes included in the Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission (the "SEC").

Note 2. Summary of Significant Accounting Policies

Inventory

Inventories are stated at the lower of cost or net realizable value using the average cost method. Inventories consisted of:

	December 31, 2010	September 30, 2011
Raw materials	$ 5,013	$ 30,414
Finished goods	2,800	39,015
Total inventory	$ 7,813	$ 69,429

The increase in inventory for the nine-month period ended September 30, 2011 is primarily a result of the production of our new 5lb bag bedding additive product.

Equipment

Equipment is carried at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which is three years. Equipment is stated on the balance sheet net of accumulated depreciation of $29,416 as of September 30, 2011. Depreciation expense for the nine-month periods ended September 30, 2010 and 2011 was $7,173 and $6,532, respectively.

Stock Options and Warrants issued for Services

All share-based payments to employees, including grants of employee stock options, are recognized in the financial statements based on their fair values.

For stock issued to consultants and other non-employees for services, we record the expense based on the fair market value of the securities as of the date of the stock issuance. The issuance of stock warrants or options to non-employees are valued at the time of issuance utilizing the Black Scholes calculation and the amount is charged to expense.

BIOLARGO, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Non-Cash Transactions

We have established a policy relative to the methodology to determine the value assigned to each intangible we acquire, and/or services or products received for non-cash consideration of our common stock. The value is based on the market price of our common stock issued as consideration, at the date of the agreement of each transaction or when the service is rendered or product is received.

The methods, estimates and judgments we use in applying these most critical accounting policies have a significant impact on the results of our financial statements.

Revenue Recognition

Revenues are recognized as risk and title to products transfers to the customer (which generally occurs at the time shipment is made), the sales price is fixed or determinable, and collectability is reasonably assured. We also may generate revenues from royalties and license fees from our intellectual property. Licensees typically pay a license fee in one or more installments and ongoing royalties based on their sales of products incorporating or using our licensed intellectual property. License fees are recognized over the estimated period of future benefit to the average licensee.

Earnings (Loss) Per Share

We report basic and diluted earnings (loss) per share (“EPS”) for common and common share equivalents. Basic EPS is computed by dividing reported earnings by the weighted average shares outstanding. Diluted EPS is computed by adding to the weighted average shares the dilutive effect if stock options and warrants were exercised into common stock. For the three and nine-month periods ended September 30, 2010 and 2011, the denominator in the diluted EPS computation is the same as the denominator for basic EPS due to the anti-dilutive effect of the warrants and stock options on the Company’s net loss.

Note 3. Deposit

On March 24, 2011, we entered into a contract in which Central Garden & Pet Company (“Central”) was granted the exclusive worldwide right and license to sell, market, offer for sale, distribute import, export, and otherwise exploit products that contain the BioLargo technologies in the “pet supplies industry” (which is defined in the agreement, and does not include products for equine or livestock). The agreement provided that we are the exclusive provider of the product containing the BioLargo technologies, other than in certain limited conditions. The rights granted to Central are exclusive so long as Central meets “minimum purchase requirements” of product from the Company, as set forth in the agreement. The agreement terminates only upon uncured breach of material warranty or obligation.

Pursuant to the Central contract, we received $100,000 deposit which will be credited against future orders. The Company has agreed to sell product to Central at a price equal to the manufacturing cost plus a “manufacturer’s margin”, in an amount to be agreed upon by the parties for each particular product. Central agreed to include a BioLargo trademark on the packaging of any products containing the BioLargo technologies.

Central shall have a right of first refusal to purchase Odor-No-More, Inc., or the Odor-No-More brand and/or intellectual property. The Company shall give notice of receipt of any offer to purchase, and Central may elect to match the terms of the offer. Central also has the right of first offer to acquire the right to commercialize new products based on BioLargo technologies in the “pet supplies industry”, following notice from the Company and a 90 day due diligence period. If Central declines to commercialize any such new product, the Company is free to commercialize such products under its own brand, but not under a third party’s brand.

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The agreement also contains standard provisions typical of a license and supply agreement.

Through the date of the filing of this Quarterly Report, no product orders were received under the Central contract.

Note 4. Deferred Revenue

Sublicense to Isan USA

On March 29, 2010, we entered into a sublicense agreement (the "Isan USA Sublicense") with Isan USA, Inc. ("Isan USA") which grants Isan USA the exclusive rights to use, exploit, develop and commercialize the Isan System Technology in the United States, in particular fields of use. Pursuant to the Isan USA Sublicense, Isan USA paid to BioLargo a $100,000 initial license fee plus additional payments of $23,000. Of the amounts received from Isan USA, $109,720 was considered deferred revenue as of June 30, 2011. Isan USA was unable to secure financing, and has ceased making the monthly payments required by the Isan USA Sublicense agreement. Given the failure of Isan USA to secure financing, on August 12, 2011 we and Isan USA mutually agreed to terminate the Isan USA Sublicense. The remaining Isan USA deferred revenue balance of $109,720 was recorded as revenue during the three-month period ended September 30, 2011.

ET Horn Warehouse

As of September 30, 2011, we had inventory totaling $60,848 of product at our distribution partner, ET Horn. ET Horn warehouses our product and makes it available to us for later sales, and thus for revenue recognition purposes, the sale to ET Horn is deferred until such time the product is sold to retailers and/or end-users. As of September 30, 2011, a balance of $60,848 relating to Odor-No-More product remains as deferred revenue.

Note 5. Private Security Offerings

The following tabular summary describes some key terms of our private securities offerings in which we sold convertible promissory notes. This information should be read in conjunction with the detailed descriptions in this footnote.

Convertible Notes sold through Private Security Offerings

Name	Maturity Date	Interest	Conversion Price	Principal Outstanding
Spring 2010 Offering	4/15/13	10%	$ 0.575	$ 438,855
Spring 2009 Offering	6/1/12	10%	$ 0.55	670,410
Fall 2008 Offering	10/15/11	10%	$ 0.50	723,000
				$ 1,832,185

Fall 2011 Offering

Pursuant to a private offering of our common stock at a price of $0.35 per share that commenced September 2011 (the "Fall 2011 Offering"), we sold 142,858 shares of our common stock at $0.35 per share and received $50,000 gross proceeds from the sale. Unlike our prior securities offerings, this offering did not involve the sale of convertible debt.

BIOLARGO, INC. AND SUBSIDIARIES
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(UNAUDITED)

Each purchaser of stock in the Fall 2011 Offering will receive, for no additional consideration, a stock purchase warrant (the "Fall 2011 Warrant") entitling the holder to purchase the same number of shares for $0.50 per share until December 31, 2012. (See Note 7.)

Winter 2011 Offering

Pursuant to a private offering of our common stock at a price of $0.35 per share that commenced January 2011 (the "Winter 2011 Offering"), through September 30, 2011 we sold 2,765,070 shares of our common stock at $0.35 per share and received $967,770 gross proceeds from the sales. Unlike our prior securities offerings, this offering did not involve the sale of convertible debt or warrants.

Summer 2010 Offering

Pursuant to a private offering of our common stock at a price of $0.30 per share, that commenced July 2010 (the "Summer 2010 Offering") and closed December 2010, we sold 3,775,012 shares of our common stock at $0.30 per share and received $1,132,500 gross proceeds from the sales. Of these amounts, we issued 350,000 shares of common stock and received $105,000 during the three-month period ended March 31, 2011. Unlike our prior securities offerings, this offering did not involve the sale of convertible debt or warrants.

Spring 2010 Offering

Pursuant to a private offering that commenced January 2010 (the "Spring 2010 Offering") and terminated July 2010, we sold $438,775 of our 10% convertible notes (the "Spring 2010 Notes"), which are due and payable on April 15, 2013, to 18 investors, the principal amount of which was converted into an aggregate 763,235 shares of our common stock. The Spring 2010 Notes are convertible into shares of our common stock at an initial conversion price of $0.575 per share. The Spring 2010 Notes can be converted voluntarily by the noteholders at any time prior to the maturity date. We can unilaterally convert the Spring 2010 Notes (i) on or after July 31, 2010, if we have received one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least $3 million gross proceeds of equity or debt; or (ii) on the maturity date. Accordingly, the Spring 2010 Notes may be repaid in cash or may be converted, at our sole option, into shares of our common stock, on or before the April 15, 2013 maturity date.

Each purchaser of the Spring 2010 Notes received, for no additional consideration, two stock purchase warrants, each of which entitle the holder to purchase the number of shares of our common stock into which the holder's Spring 2010 Note is initially convertible. The first warrant (the "Spring 2010 Eighteen Month Warrant") was exercisable at a price of $0.75 per share and expired unexercised on July 15, 2011. The second warrant (the "Spring 2010 Thirty-Six Month Warrant") is exercisable at a price of $1.00 per share and expires on January 15, 2013. (See Note 7.)

Spring 2009 Offering

Pursuant to a private offering that commenced April 2009 (the "Spring 2009 Offering") and terminated November 2009, we sold $681,410 of our 10% convertible notes (the "Spring 2009 Notes"), which are due and payable on June 1, 2012, to 23 investors, convertible into an aggregate 1,238,935 shares of our common stock. The Spring 2009 Notes are convertible into shares of our common stock at an initial conversion price of $0.55 per share. The Spring 2009 Notes can be converted voluntarily by the noteholders at any time prior to the maturity date. We can unilaterally convert the

Spring 2009 Notes (i) on or after December 15, 2009, if we have received one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least $3 million gross proceeds of equity or debt; or (ii) on the maturity date. Accordingly, the Spring 2009 Notes may be repaid in cash or may be converted, at our sole option, into shares of our common stock, on or before the June 1, 2012 maturity date.

BIOLARGO, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Each purchaser of the Spring 2009 Notes received, for no additional consideration, two stock purchase warrants, each of which entitle the holder to purchase the number of shares of our common stock into which the holder's Spring 2009 Note is initially convertible. The first warrant (the "Spring 2009 One-Year Warrant") was exercisable at a price of $0.75 per share and expired unexercised on December 1, 2010. The second warrant (the "Spring 2009 Three-Year Warrant") is exercisable at a price of $1.00 per share and expires on June 1, 2012. (See Note 7.)

Fall 2008 Offering

Pursuant to a private offering that commenced October 2008 (the "Fall 2008 Offering") and terminated March 2009, we sold $723,000 of our 10% convertible notes (the "Fall 2008 Notes"), which are due and payable October 15, 2011, to 18 investors, convertible into an aggregate 1,446,000 shares of our common stock. As originally offered, the Fall 2008 Notes were convertible into shares of our common stock at an initial conversion price of $1.00 per share. The Fall 2008 Notes can be converted voluntarily by the noteholders at any time prior to the maturity date. We can unilaterally convert the Fall 2008 Notes (i) on or after April 30, 2009, if we have received one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least $3 million gross proceeds of equity or debt; or (ii) on the maturity date. Accordingly, the Fall 2008 Notes may be repaid in cash or may be converted, at the noteholders' option or our option, into shares of our common stock, on or before the October 15, 2011 maturity date.

Each purchaser of the Fall 2008 Notes received, for no additional consideration, two stock purchase warrants (a one-year warrant and a three-year warrant), each of which entitled the holder to purchase the number of shares of our common stock into which the holder's Fall 2008 Note is initially convertible. As originally offered, the first warrant (the "Fall 2008 One-Year Warrant") was exercisable at $0.50 per share and expired unexercised on October 15, 2009. The second warrant (the "Fall 2008 Three-Year Warrant") is exercisable at $1.00 per share and expired on October 15, 2011. (See Notes 7 and 13.)

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

Note 6. Conversion of Notes

Spring 2008 Notes

Pursuant to a private offering that commenced March 2008 (the "Spring 2008 Offering") and terminated August 2008, we sold $913,625 of our 10% convertible notes (the "Spring 2008 Notes"), which were due and payable on March 31, 2011, to 30 investors, convertible into an aggregate 676,775 shares of our common stock. The Spring 2008 Notes are convertible into shares of our common stock at a conversion price of $1.35 per share.

On March 31, 2011, per the terms of the Spring 2008 Notes, we elected to convert the remaining aggregate principal balance of $913,625 and $76,051 of accrued and unpaid interest into an aggregate 733,108 shares of our common stock.

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Spring 2009 Note

On April 16, 2011, the holder of a note issued in our Spring 2009 Offering elected to convert the principal balance of $11,000, and accrued unpaid interest of $964, into an aggregate 21,754 shares of our common stock, at a conversion price of $0.55.

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

Note 7. Warrants

We have certain warrants outstanding to purchase our common stock, at various prices, as described in the following table:

	Number of Shares	Price Range
Outstanding as of December 31, 2010	8,470,669	$ 0.125 – 2.00
Issued	1,089,630	$ 0.50 – 0.75
Exercised	—	$ —
Expired	2,403,922	$ 0.75 – 2.00
Outstanding as of September 30, 2011	7,156,377	$ 0.50 – 1.00

To determine interest expense related to our outstanding warrants issued in conjunction with debt offerings, the fair value of each award grant is estimated on the date of grant using the Black-Scholes option-pricing model and the calculated value is amortized over the life of the warrant. The determination of expense of warrants issued for services or settlement also uses the option-pricing model. The principal assumptions we used in applying this model were as follows:

	2010	2011
Risk free interest rate	0.37 – 0.80%	0.13 – 1.87%
Expected volatility	195 – 468%	151 – 558%
Expected dividend yield	—	—
Forfeiture rate	—	—
Expected life in years	1.00 – 3.00	0.50 – 3.00

The risk-free interest rate is based on U.S Treasury yields in effect at the time of grant. Expected volatilities are based on historical volatility of our common stock. The expected life in years is presumed to be the mid-point between the vesting date and the end of the contractual term.

Warrants issued as part of our Convertible Notes

We recorded $1,060,154 and $481,303 of interest expense related to the amortization of the discount on convertible notes for the nine-month periods ended September 30, 2010 and 2011, respectively.

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Fall 2011 Warrants

From the inception of our Fall 2011 Offering in September 2011 through September 30, 2011, we issued a warrant to purchase up to an aggregate 142,858 shares of our common stock to the purchaser of stock in our Fall 2011 Offering. This warrant expires on December 31, 2012 and has an exercise price of $0.50 per share.

Spring 2010 Warrants

From the inception of our Spring 2010 Offering on January 15, 2010, through its termination in July 2010, we issued warrants to purchase up to an aggregate 1,527,842 shares of our common stock to purchasers of our Spring 2010 Notes, consisting of Spring 2010 Eighteen Month Warrants to purchase up to an aggregate 763,235 shares which expired July 15, 2011, at an exercise price of $0.75 per share, and Spring 2010 Thirty-Six Month Warrants to purchase up to an aggregate 763,235 shares which expire January 15, 2013, at an exercise price of $1.00 per share.

Spring 2010 Warrant Extension

On July 15, 2011, the expiration date of the Spring 2010 Eighteen Month Warrant was extended six-months from July 15, 2011 to January 15, 2012. The fair value of the extension was an aggregate $55,166 and will be expensed ratably through the expiration period of January 15, 2012.

Spring 2009 Warrants

From April 2009 through November 2009, we issued warrants to purchase up to an aggregate 2,477,870 shares of our common stock to purchasers of our Spring 2009 Notes, consisting of Spring 2009 One-Year Warrants to purchase up to an aggregate 1,238,935 shares which were originally scheduled to expire June 1, 2010, and were extended to December 1, 2010, at an exercise price of $0.75 per share, and Spring 2009 Three-Year Warrants to purchase up to an aggregate 1,238,935 shares which expire June 1, 2012, at an exercise price of $1.00 per share.

On June 1, 2010, the expiration of the Spring 2009 One-Year Warrants was extended from June 1, 2010 through December 1, 2010, resulting in additional fair value totaling $277,992, which was recorded as interest expense through December 31, 2010. The Spring 2009 One-Year Warrants expired unexercised December 1, 2010.

Fall 2008 Warrants

Pursuant to the terms of the Fall 2008 Notes, we issued warrants to purchase up to an aggregate 2,892,000 shares of our common stock to purchasers of our Fall 2008 Notes, consisting of Fall 2008 One-Year Warrants to purchase an aggregate 1,446,000 shares which expired October 15, 2009, at an exercise price of $0.75 per share (initially issued at $1.00 per share), and Fall 2008 Three-Year Warrants to purchase up to an aggregate 1,446,000 shares which expired on October 15, 2011, at an exercise price of $1.00 per share (initially issued at $2.00 per share). The expiration date of the Fall 2008 Three-Year Warrants was extended from October 15, 2011 to October 15, 2012. (See Note 13.)

Spring 2008 Warrants

Each purchaser of the Spring 2008 Notes received, for no additional consideration, two stock purchase warrants (a “One-Year Warrant” and a “Three-Year Warrant”), each of which entitled the holder to purchase the number of shares of our common stock into which the holder's Spring 2008 Note is initially convertible. The "Spring 2008 One-Year Warrants" expired on March 31, 2009 and were exercisable at $0.50 per share. The "Spring 2008 Three-Year Warrants" were exercisable at an exercise price of $2.00 per share and expired unexercised on March 31, 2011.

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Other Warrants

On May 11, 2011 we issued a warrant to consultants for services provided to purchase up to an aggregate 183,545 shares of our common stock at an exercise price of $0.55 per share, resulting in a fair value of $100,950, which was recorded as selling, general and administrative expense. The warrant expires May 11, 2016.

On June 8, 2010 we issued a warrant to the holder of a note payable to purchase up to an aggregate 50,000 shares of our common stock at an exercise price of $0.50 per share, resulting in a fair value of $20,000, which was recorded as interest expense through December 31, 2010. The warrant expires June 8, 2013.

Note 8. Stockholders' Equity

Preferred Stock

Our certificate of incorporation authorizes our Board of Directors to issue preferred stock, from time to time, on such terms and conditions as they shall determine. As of December 31, 2010 and September 30, 2011 there were no outstanding shares of our preferred stock.

Common Stock

As of December 31, 2010 and September 30, 2011 there were 51,782,619 and 56,732,582 shares of common stock outstanding, respectively. The increase in shares during the nine-month period ended September 30, 2011 is comprised of the following stock issuances: (i) 2,765,070 shares of our common stock issued to purchasers of our Winter 2011 PPM, (ii) 350,000 shares issued to purchasers of our Summer 2010 PPM, (iii) 733,108 shares as payment of our Spring 2008 Notes and related accrued interest, (iv) 590,244 shares of our common stock to our officers for payment of payables and as a stock bonus, (v) 177,673 shares as payment of our Spring 2009 Notes accrued interest, (vi) 100,092 shares as payment of our Spring 2010 Notes accrued interest, (vii) 142,858 shares issued to purchasers of our Fall 2011 PPM and (viii) 90,918 shares as payment to consultants in lieu of accrued and unpaid obligations.

Note 9. Stock-Based Compensation and Other Employee Benefit Plans

2007 Equity Incentive Plan

On August 7, 2007, our Board of Directors adopted the BioLargo, Inc. 2007 Equity Incentive Plan ("2007 Plan") as a means of providing our directors, key employees and consultants additional incentive to provide services. Both stock options and stock grants may be made under this plan. The Compensation Committee administers this plan. The plan allows grants of common shares or options to purchase common shares. As plan administrator, the Compensation Committee has sole discretion to set the price of the options. The Compensation Committee may at any time amend or terminate the plan.

On April 29, 2011, a majority of our stockholders consented to an amendment to our 2007 Equity Incentive Plan to increase the maximum aggregate number of shares of our Common stock reserved for issuance under the plan from 6,000,000 shares to 12,000,000 shares. This amendment was disclosed in the Information Statement filed by the Company on May 2, 2011, and was effective as of June 14, 2011.

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Through August 31, 2011, the initial term of the consulting agreement, we granted options to purchase an aggregate 287,897 shares of our common stock to our consultant Vik Rao, pursuant to the terms of our engagement agreement with him. These options are fully vested and are exercisable at prices ranging between $0.40 and $0.51 depending upon their respective dates of grant. The fair value of these option issuances was an aggregate $130,700 and was recorded as selling, general and administrative expense as of September 30, 2011. (See Note 10.)

On August 31, 2011, we entered into a one-year agreement with Vik Rao and in accordance with the agreement, issued an option to purchase 250,000 shares of our common stock at an exercise price of $0.40, the stock price on the grant date. The options vest monthly over the one year term of the agreement and are exercisable for ten years. The aggregate fair value of these options total $87,500 and $14,583 was expensed as selling, general and administrative expense through September 30, 2011 and the remaining $72,917 will be expensed ratably through July 31, 2012.

On August 18, 2011 we issued an option to purchase an aggregate 8,334 shares of our common stock to a new independent member of our Board of Directors, pursuant to the terms of the 2007 Equity Plan which calls for an automatic issuance of an option to any new independent director. The option vests after a period of one year from the date of grant, expires ten years from the date of issuance, and is exercisable at $0.35 per share, the price of our common stock on the grant date. The fair value of this option totaled $2,917 and was expensed during the three-month period ended September 30, 2011.

During the three-month period ended March 31, 2011, we granted options to purchase an aggregate 130,000 shares of our common stock to our Chief Financial Officer, pursuant to the terms of our engagement agreement with him. These options are exercisable at exercise prices ranging between $0.41 and $0.42 depending upon their respective dates of grant and vest ratably from February 28, 2011 through February 28, 2012. Through September 30, 2011, 80,000 options have vested. The fair value of these option issuances was an aggregate $53,400 and $32,900 was recorded as selling, general and administrative expense as of September 30, 2011. The $20,500 of fair value related to the remaining 50,000 options will be expensed ratably over the remaining five-month vesting schedule. The options are exercisable for ten years from its respective date of grant.

On March 17, 2011, in an effort to preserve our cash and reduce outstanding payables, the Board offered to third parties and board members the opportunity to convert outstanding payable amounts into an option (“Option”) to purchase common stock in lieu of cash payment. We issued Options to purchase an aggregate 260,904 shares of our common stock in exchange for the settlement of accrued and unpaid obligations totaling $71,980. (See Note 10.) Of this amount we issued an option to purchase an aggregate 167,470 shares of our common stock to our board of directors at $0.41 per share, an option to purchase an aggregate 68,433 share of our common stock to a third-party consultants at $0.41 per share, and an option to purchase 25,000 shares of our common stock to a third-party consultant at $0.45 per share. Each option expires five years from the date of issuance. The fair value of these options totaled $107,970 resulting in an additional $35,990 of selling, general and administrative expense.

On March 17, 2011, the Company’s Compensation Committee issued options pursuant to the Company’s 2007 Equity Incentive Plan to certain employees, outside consultants and professionals who have and continue to provide services to the Company, consistent with management’s recommendations to the committee. In total, options to purchase an aggregate 765,000 shares of the Company’s common stock were issued, at an exercise price of $0.41 per share, the closing price of the Company’s common stock on the date of grant. Of the options issued, 200,000 were issued to our Secretary and VP of Operations, and the remaining 565,000 were issued to third party service providers and consultants for their respective roles within the Company. The aggregate fair value of this option grant was $313,650 and it is included as selling, general and administrative expenses.

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During the nine-month periods ended September 30, 2010 and 2011 we recorded an aggregate $925,800 and $1,144,928 in option compensation expense related to options issued pursuant to the 2007 Plan.

Activity for our stock options under the 2007 Plan for the nine-month period ended September 30, 2011 is as follows:

	Options Outstanding	Shares Available	Price per share	Weighted Average Price per share
Balances, December 31, 2010	4,797,223	1,202,777	$ 0.25 – 1.89	$ 0.51
Amendment to increase	—	6,000,000	—	—
Granted	1,805,593	(1,805,593)	$ 0.35 – 0.51	$ 0.43
Exercised	—	—	—	—
Canceled	—	—	—	—
Balances, September 30, 2011	6,602,816	5,397,184	$ 0.25 – $1.89	$ 0.48

Options issued outside of the 2007 Equity Incentive Plan

On August 12, 2011, we entered into an agreement with Steven V. Harrison whereby we retained Mr. Harrison to serve as our Director of International Ventures and Business Development. Mr. Harrison, formerly a member of our Board of Directors, has been working with us for some time in this role. In addition to salary, Mr. Harrison will receive an option to purchase 800,000 shares of common stock for $1.00 per share, which shares will vest on a monthly basis over a period of four years and expire 10 years from the issue date. Should Mr. Harrison's agreement terminate, no further shares will vest. The fair value of this option totaled $304,000 and will be expensed ratably through August 31, 2015.

	Options Outstanding	Price per share	Weighted Average Price per share
Balances, December 31, 2010	10,871,484	$ 0.18 – 0.99	$ 0.38
Amendment to increase	—	—	—
Granted	800,000	$ 1.00	$ 1.00
Exercised	—	—	—
Canceled	—	—	—
Balances, September 30, 2011	11,671,484	$ 0.25 – $1.89	$ 0.43

We recognize compensation expense for stock option awards on a straight-line basis over the applicable service period of the award, which is the vesting period. Share-based compensation expense is based on the grant date fair value estimated using the Black-Scholes Option Pricing Model. The following methodology and assumptions were used to calculate share based compensation for the nine-month period ended September 30, 2011:

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	2007 Plan	Non Plan
Risk free interest rate	2.08 – 2.82%	2.24%
Expected volatility	906%	906%
Expected dividend yield	—	—
Forfeiture rate	—	—
Expected life in years	5	7

Expected price volatility is the measure by which our stock price is expected to fluctuate during the expected term of an option. Expected volatility is derived from the historical daily change in the market price of our common stock, as we believe that historical volatility is the best indicator of future volatility.

Following the SEC guidance, we use the "shortcut" method to determine the expected term of plain vanilla options issued to employees and Directors. The expected term is presumed to be the mid-point between the vesting date and the end of the contractual term.

The risk-free interest rate used in the Black-Scholes calculation is based on the prevailing U.S Treasury yield as determined by the U.S. Federal Reserve. We have never paid any cash dividends on our common stock and do not anticipate paying cash dividends on our common stock in the foreseeable future.

We recognize compensation expense for stock option awards on a straight-line basis over the applicable service period of the award, which is the vesting period. Share-based compensation expense is based on the grant date fair value estimated using the Black-Scholes Option Pricing Model. Historically, we have not had significant forfeitures of unvested stock options granted to employees and Directors. A significant number of our stock option grants are fully vested at issuance or have short vesting provisions. Therefore, we have estimated the forfeiture rate of our outstanding stock options as zero.

Note 10. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included the following:

	December 31, 2010	September 30, 2011
Accounts payable and accrued expenses	$ 545,725	$ 623,025
Accrued interest	164,694	127,014
Total Accounts Payable and Accrued Expenses	$ 710,419	$ 750,039

Issuance of Common Stock in exchange for payment of payables

Payment of Officer Salaries and Board of Director Fees

On March 21, 2011, we issued an aggregate 190,244 shares of our common stock, at a conversion price of $0.41, which was the closing price of our common stock on the day of issuance, to our Chief Financial Officer in lieu of $78,000 in accrued and unpaid payables for their services.

On March 17, 2011, the Company's Compensation Committee issued 400,000 shares of the Company's common stock. Of this share issuance, 200,000 were issued to the Chief Executive Officer and the remaining 200,000 were issued to our Chief Technical Officer. The stock price was $0.41 on the date of grant, resulting in $163,168 of compensation expense.

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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.

Payment of Consultant Fees

On March 30, 2011, we issued an aggregate 55,515 shares of our common stock, at a conversion price of $0.48, in lieu of $30,688 of fees related to consultants. This entire amount related to services performed in 2011.

On May 23, 2011, we issued 25,000 shares of our common stock at a conversion price of $0.45 per share, in lieu of $11,250 to a consultant in exchange for research and marketing services.

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.

Accrued Interest

On March 31, 2011, per the terms of the Spring 2008 Notes, we elected to convert the remaining accrued and unpaid interest balance of $76,051 into 56,334 shares of our common stock, at a conversion price of $1.35 per share.

On April 15, 2011, per the terms of the Spring 2009 Notes, we elected to convert accrued and unpaid interest of $67,041 into 155,919 shares of our common stock, at a conversion price of $0.43 per share.

On June 1, 2011, per the terms of the Spring 2010 Notes, we elected to convert accrued and unpaid interest of $46,986 into 100,092 shares of our common stock, at a conversion price of $0.47 per share.

During the nine-month periods ended September 30, 2010 and 2011, we recorded $264,791 and $158,830 of interest expense related to the convertible notes outstanding, respectively.

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.

Issuance of Stock Options in exchange for payment of payables

Through August 31, 2011, the initial term of the consulting agreement, we granted options to purchase an aggregate 287,897 shares of our common stock to our consultant Vik Rao, pursuant to the terms of our engagement agreement with him. These options are fully vested and are exercisable at prices ranging between $0.40 and $0.51 depending upon their respective dates of grant. The fair value of these option issuances was an aggregate $130,700 and was recorded as selling, general and administrative expense as of September 30, 2011.

On March 17, 2011, in an effort to preserve our cash and reduce outstanding payables, the Board offered to third parties the opportunity to convert outstanding payable amounts into an option (“Option”) to purchase common stock in lieu of cash payment. We issued Options to purchase an aggregate 260,904 shares of our common stock in exchange for the settlement of accrued and unpaid obligations totaling $71,980. (See Note 10.) Of this amount we issued an option to purchase an aggregate 167,470 shares of our common stock to our board of directors at $0.41 per share, an option to purchase an aggregate 68,433 share of our common stock to a third-party consultants at $0.41 per share, and an option to purchase 25,000 shares of our common stock to a third-party consultant at $0.45 per share. Each option expires five years from the date of issuance. The fair value of these options totaled $107,970 resulting in an additional $35,990 of selling, general and administrative expense.

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Note 11. Notes Payable

On June 8, 2010, we received $100,000 and issued a promissory note with a maturity date of December 3, 2010, which accrues interest at a rate of 10%. The noteholder, for no additional consideration, received a stock purchase warrant entitling the holder to purchase 50,000 shares of our common stock, exercisable at $0.50 per share until June 3, 2013. (See Note 7.) On December 7, 2010, the maturity date of the note was extended to December 3, 2011.

On August 3, 2009, we received $70,000 and issued a promissory note with a maturity date of October 31, 2009 which accrued interest at a rate of 10%. On October 31, 2009 the maturity date of this promissory note was extended to February 1, 2010. The maturity date was further extended to December 1, 2010, and in March 2010 a $20,000 payment on the note was made. On December 31, 2010 we converted $30,000 principal balance into an aggregate 100,000 shares of our common stock at $0.30, and agreed to extend the maturity date to March 1, 2011. On March 1, 2011, we paid the remaining principal amount of $20,000, and $9,590 of accrued interest, in full satisfaction of the note.

For the nine-month period ended September 30, 2010 and 2011 we recorded $4,109 and $2,556 of interest expense related to these note payables.

Note 12. Commitments and Contingencies

Litigation

We are not currently a party to any litigation.

Note 13. Subsequent Events

Management has evaluated subsequent events through the date of the filing of this Quarterly Report and management noted the following for disclosure.

Extension of Fall 2008 Three-Year Warrants

Pursuant to the terms of the Fall 2008 Offering, we issued Three-year Warrants to purchase up to an aggregate 1,446,000 shares of our common stock, which were originally scheduled to expire on October 15, 2011. The warrants entitle the holder to purchase stock at an exercise price of $1.00 per share. On September 28, 2011, we extended the expiration date of the Fall 2008 Three-year Warrant by one year from October 15, 2011 to October 15, 2012.

Conversion of Fall 2008 Notes

Pursuant to a private offering that commenced October 2008 (the “Fall 2008 Offering”) and terminated March 2009, we sold $723,000 of our 10% convertible notes (the “Fall 2008 Notes”), which are due and payable October 15, 2011, to 18 investors, convertible into an aggregate 1,446,000 shares of our common stock.

On October 15, 2011, per the terms of the Fall 2008 Notes, we elected to convert the remaining aggregate principal balance of $723,000 and $72,300 of accrued and unpaid interest into an aggregate 1,590,600 shares of our common stock.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

- our business plan;
- the commercial viability of our technology and products incorporating our technology;
- the effects of competitive factors on our technology and products incorporating our technology;
- expenses we will incur in operating our business;
- our ability to end persistent operating losses and generate positive cash flow and operating income;
- our ability to identify potential applications of our technology in industries other than the animal health industry and to bring viable products to market in such industries;
- the application of our technology in the food and beverage industry;
- the willingness of other companies to incorporate our technology into new or existing products or services and provide continued support for such products or services;
- the ability of our licensees to successfully produce, advertise and market products incorporating our technology;
- the continued success and viability of our licensees holding the exclusive right to exploit our technology in particular fields;
- the sufficiency of our liquidity and working capital;
- our ability to finance product field testing, hiring of personnel, required regulatory approvals, and needed patent applications;
- continued availability and affordability of resources used in our technology and the production of our products and services; and
- whether we are able to complete additional capital or debt financings in order to continue to fund operations and continue as a going concern.

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-Q, that could cause actual results to differ materially from those projected.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010. Unless otherwise expressly stated herein, all statements, including forward-looking statements, set forth in this Form 10-Q are as of September 30, 2011, and we undertake no duty to update this information.

As used in this Report, the term Company refers to BioLargo, Inc., a Delaware corporation, and its wholly-owned subsidiaries, BioLargo Life Technologies, Inc., a California corporation, and Odor-No-More, Inc., a California corporation.

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The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes to the consolidated financial statements included elsewhere in this report.

Overview

By leveraging our suite of patented and patent-pending intellectual property, which we refer to as the BioLargo technology, our business strategy is to harness and deliver nature's best disinfectant – iodine – in a safe, efficient, environmentally sensitive and cost-effective manner. The centerpiece of our BioLargo technology is CupriDyne™, which works by combining minerals with water from any source and delivering "free-iodine" on demand, in controlled dosages, in order to balance efficacy of disinfectant or odor control performance with concerns about toxicity.

Our BioLargo technology delivers "nature's best solution" – iodine – to an array of problems, including odor and moisture control, disinfection, and contaminated water. Our technology enables us to deliver precise dosing of iodine in a variety of physical forms and delivery systems, which often include the combination of chemical reagents with other materials. We primarily focus on developing uses and/or applications for our technology for its use in products, in order for us to secure a licensing and/or supplier agreement with other companies, that will in turn, sell services or products to their customers within a specific industry segment.

Armed with a solution to these problems, our BioLargo technology has potential commercial applications within global industries, including animal health, oil and gas extraction, agriculture and livestock, beach and soil environmental remediation, consumer products, food processing, medical, and water industries. While we believe the potential applications are many, we have developed and commercially launched products in one area -- the animal health industry, under the brand name "Odor-No-More", and recently entered into an exclusive license and supply agreement with Central Garden & Pet Company ("Central Garden & Pet", or "Central"), the industry leading producer of premium pet products in the United States. While we continue to advance our efforts to market and sell our Odor-No-More products, with the addition of two key industry experts to our team, we are also actively seeking opportunities for product sales or licensing in the oil and gas industry, and the food processing industry.

In 2010, we added as a consultant the former chief technology officer of the oil industry company Halliburton, Dr. Vikram Rao. Having spent more than 30 years at Halliburton, Dr. Rao will be consulting with us on development of our technology in the oil and gas industry. Dr. Rao is the author of more than 40 publications, has been awarded 24 patents, serves as the Executive Director of the Research Triangle Energy Consortium, and brings his experience and industry connections to BioLargo.

In February 2011, we added as a consultant former Pepsi-Cola International VP of Technical Services, Harry DeLonge. Having spent more than 40 years at Pepsi-Cola International, Mr. DeLonge will consult with us in our efforts to commercialize our BioLargo technology in the food and beverage industry. Within the food and beverage industry, we believe the BioLargo technologies are useful in a number of applications, including "clean-in-place" related uses, treating processed and wastewater, and for enhancing performance of certain filter and water treatment technologies. In addition, we believe that we have a cost effective solution for managing dangerous and/or odorless compounds common with this industry. With Mr. DeLonge's assistance, we are advancing proof of claim, and seeking customers and licensing partners.

On March 24, 2011, we entered into an agreement granting Central Garden & Pet the exclusive worldwide right and license to sell, market, offer for sale, distribute import, export, and otherwise exploit products that contain the BioLargo technologies in the "pet supplies industry" (which is defined in the agreement, and does not include products for equine or livestock). The agreement provides that we are to be the exclusive provider of the product containing the BioLargo technologies, other than in certain limited conditions. The rights granted to Central are exclusive so long as Central meets "minimum purchase requirements" of product from us, as set forth in the agreement. The agreement terminates only upon uncured breach of material warranty or obligation.

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We believe that the supplier and licensing relationship with Central will likely expand to include multiple products that feature our BioLargo technology, although the agreement does not require Central to launch multiple products, and no assurance can be made that they will do so. Central is a leading seller and distributor of pet products and had sales in the pet industry of more than $840 million in its fiscal year 2010.

On March 24, 2011, Central paid us $100,000, which will be credited against future orders. We have agreed to sell product to Central at a price equal to the manufacturing cost plus a "manufacturer's margin", in an amount to be agreed upon by the parties for each particular product. Central agreed to include a BioLargo trademark on the packaging of any products containing the BioLargo technologies.

Central shall have a right of first refusal to purchase Odor-No-More, Inc., or the Odor-No-More brand and/or intellectual property. We are required to give notice of receipt of any offer to purchase, and Central may elect to match the terms of the offer. Central also has the right of first offer to acquire the right to commercialize new products based on BioLargo technologies in the "pet supplies industry", following notice from us and a 90 day due diligence period. If Central declines to commercialize any such new product, we are free to commercialize such products under its own brand, but not under a third party's brand.

Results of Operations—Comparison of the three and nine-month periods ended September 30, 2011 and 2010

We generated revenues of $142,259 during the nine-month period ended September 30, 2011, as compared with revenues of $134,360 during the nine-month period ended September 30, 2010. During the nine-month period ended September 30, 2011 and 2010 we used cash in operations of $1,334,451 and $712,207 and incurred a net loss of $3,043,994 and $4,476,408, respectively.

Revenue

We generated $120,525 and $142,259 in revenues from operations during the three and nine-month periods ended September 30, 2011. Of these amounts, $109,720 and $115,500 is comprised of the recognition of deferred revenue related to the Isan USA license transaction (see Note 4); $10,805 and $26,759 is comprised of sales of our Odor-No-More products. Our Odor-No-More products are still in the early stages of the sales and distribution process and therefore variance in results of our cost of sales and gross margin for the three and nine-month periods is not meaningful.

Cost of Goods Sold

For the three-month period ended September 30, 2011, our $12,683 in cost of goods sold was 117% of product revenues, as compared with 96% of product revenues for the three-month period ended September 30, 2010. For the nine-month period ended September 30, 2011, our $36,270 in cost of goods sold was 136% of product revenues as compared with 78% of product revenues for the nine-month period ended September 30, 2010. In the three-month period we recognized $109,720 of deferred revenue related to the termination of the ISAN USA license agreement and there were no cost of goods sold related to this deferred revenue. (See Note 4.) In the nine-month period ended September 30, 2011, we agreed to purchase back product shipped in 2010 to a customer, which has affected cost of goods sold of our Odor-No-More bedding additive products in both periods.

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Our cost of goods sold includes costs of raw materials, contract manufacturing, and proportions of salaries and expenses related to the production of our Odor-No-More branded products. Because we have not achieved consistent revenue levels or production volumes, our gross margin will continue to fluctuate. Given the low sales volume and the unpredictability of future sales, management does not believe these results are an indicator of future performance.

Selling, General and Administrative Expense

Selling, General and Administrative expenses were $580,507 and $2,453,038 for the three and nine-month periods ended September 30, 2011, compared to $811,895 and $3,204,597 for the three and nine-month periods ended September 30, 2010, a decrease of $231,388 and $751,599, respectively. The largest components of these expenses were:

a. Salaries and Payroll-related Expenses: These expenses were $206,485 and $875,670 for the three and nine-month periods ended September 30, 2011, compared to $234,309 and $1,343,520 for the three and nine-month periods ended September 30, 2010, a decrease of $27,824 and $467,850, respectively. The decrease in the three and nine-month periods is related to the end of the amortization of accrued option compensation expense for an option issued to our Chief Executive Officer in 2007. There was no amortization in 2011 compared to four months of amortization during the nine-month period ended September 30, 2010.

b. Consulting Expenses: These expenses were $178,678 and $654,485 for the three and nine-month periods ended September 30, 2011, compared to $328,279 and $1,043,222 for the three and nine-month periods ended September 30, 2010, a decrease of $151,601 and $388,357. The decrease in the three- and nine-month periods ended September 30, 2011 is primarily attributable to reduced non-cash stock option compensation expense and stock issued for services to consultants in 2011 when compared to 2010.

c. Professional Fees: These expenses were $65,998 and $301,284 for the three and nine-month periods ended September 30, 2011, compared to $104,374 and $254,372 for the three and nine-month periods ended September 30, 2010, a decrease of $38,376 and an increase of $46,912, respectively. This fluctuation is consistent with our usage of professionals for accounting, auditing and legal costs associated with the timing of our transactions in 2011 as compared with 2010.

Interest expense

Interest expense totaled $228,639 and $642,088 for the three and nine-month periods ended September 30, 2011, compared to $465,646 and $1,329,054 for the three and nine-month periods ended September 30, 2010, an decrease of $236,941 and $686,365. The decrease is primarily due to the reduction of interest expense related to a decrease in our outstanding convertible notes and amortization of the discount based on the fair value of the warrants issued in connection with our convertible debt.

Research and Development

Research and development expenses were $9,035 and $48,325 for the three and nine-month periods ended September 30, 2011, compared to $17,401 and $88,893 for the three and nine-month periods ended September 30, 2010, a decrease of $8,366 and $40,568 related to a reduction of university studies and patent application and prosecutions as compared to 2010, offset by additional expense as a result of settling unpaid obligations with an option to purchase our common stock.

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Net Loss

Net loss for the three and nine-month periods ended September 30, 2011 was $711,674 and $3,043,994, a loss of $0.01 and $0.06 per share, compared to a net loss for the three and nine-month periods ended September 30, 2010 of $1,171,759 and $4,476,408, a loss of $0.03 and $0.10 per share. The decrease in net loss for the three and nine-month periods ended September 30, 2011 is primarily attributable to the non-cash amortization expense related to our intangible assets which were fully impaired as of December 31, 2010. Additionally, the decrease is due to the reduction of interest expense related to a decrease in our outstanding convertible notes and amortization of the discount based on the fair value of the warrants issued in connection with our convertible debt. This is offset from the non-cash option expense related to the issuance of options to the management team and common stock to consultants for services provided, recorded in 2011.

Liquidity and Capital Resources

We have been, and anticipate that we will continue to be, limited in terms of our capital resources. Until we are successful in commercializing products or negotiating and securing payments for licensing rights from prospective licensing candidates, we expect to continue to have operating losses. Cash and cash equivalents totaled $189,648 at September 30, 2011. We had negative working capital of $2,027,351 as of September 30, 2011, compared with negative working capital of $1,935,767 as of September 30, 2010. We had negative cash flow from operating activities of $1,334,451 for the nine-month period ended September 30, 2011, compared to a negative cash flow from operating activities of $712,207 for the nine-month period ended September 30, 2010. We used cash from financing activities to fund operations. Our cash position is insufficient to meet our continuing anticipated expenses or fund anticipated operating expenses. Accordingly, we will be required to raise significant additional capital to sustain operations and further implement our business plan and we may be compelled to reduce or curtail certain activities to preserve cash.

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of our business. As reflected in the accompanying financial statements, we had a net loss of $3,043,994 for the nine-month period ended September 30, 2011, and an accumulated stockholders' deficit of $66,554,899 as of September 30, 2011. The foregoing factors raise substantial doubt about our ability to continue as a going concern. Ultimately, our ability to continue as a going concern is dependent upon our ability to attract significant new sources of capital, attain a reasonable threshold of operating efficiencies and achieve profitable operations by licensing or otherwise commercializing products incorporating our BioLargo technology. The accompanying condensed consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

As of September 30, 2011 we had $1,932,185 aggregate principal amount outstanding on various promissory notes. We may pay the principal and interest due on these notes in cash or in stock, at our option, at maturity. In addition, as of September 30, 2011, we had $750,039 of outstanding accounts payable and accrued expenses, of which $127,014 relates to interest due on outstanding promissory notes, and $623,025 relates to accrued and unpaid payables.

Since we continue to be limited in terms of our capital resources, we are continuing to raise investment funds through private securities offerings. During the nine-month period ended September 30, 2011, we received gross and net proceeds of $1,122,770 pursuant to our private securities offerings. We will be required to raise substantial additional capital to expand our operations, including without limitation, hiring additional personnel, additional scientific and third-party testing, costs associated with obtaining regulatory approvals and filing additional patent applications to protect our intellectual property, and possible strategic acquisitions or alliances, as well as to meet our liabilities as they become due for the next 12 months. We may also be compelled to reduce or curtail certain activities to preserve cash.

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In addition to the private securities offerings discussed above, we are continuing to explore numerous alternatives for our current and longer-term financial requirements, including additional raises of capital from investors in the form of convertible debt or equity. There can be no assurance that we will be able to raise any additional capital. No commitments are in place as of the date of the filing of this report for any such additional financings. Moreover, in light of the current unfavorable economic conditions, we do not believe that any such financing is likely to be in place in the immediate future.

It is also unlikely that we will be able to qualify for bank or other financial institutional debt financing until such time as our operations are considerably more advanced and we are able to demonstrate the financial strength to provide confidence for a lender, which we do not currently believe is likely to occur for at least the next 12 months or more.

If we are unable to raise sufficient capital, we may be required to curtail some of our operations, including efforts to develop, test, market, evaluate and license our BioLargo technology. If we were forced to curtail aspects of our operations, there could be a material adverse impact on our financial condition and results of operations.

Critical Accounting Policies

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

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

We anticipate that revenue will come from two sources: sales of Odor-No-More products and from royalties and license fees from our intellectual property. Odor-No-More revenue is recognized upon shipment of the product and all other contingencies have been met. Licensees typically pay a license fee in one or more installments and ongoing royalties based on their sales of products incorporating or using our licensed intellectual property. License fees are recognized over the estimated period of future benefit to the average licensee.

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

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It is the Company's policy to expense share based payments as of the date of grant in accordance with Auditing Standard Codification Topic 718 "Share-Based Payment." Application of this pronouncement requires significant judgment regarding the assumptions used in the selected option pricing model, including stock price volatility and employee exercise behavior. Most of these inputs are either highly dependent on the current economic environment at the date of grant or forward-looking expectations projected over the expected term of the award. As a result, the actual results on future earnings could differ significantly from our current estimate.

Recent Accounting Pronouncements

Recent accounting pronouncements issued by FASB and the SEC did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

Inflation

Inflation affects the cost of raw materials, goods and services we use. In recent years, inflation overall has been modest, but we believe inflation may increase our costs in the near future. We seek to mitigate the adverse effects of inflation primarily through improved productivity and strategic buying initiatives. Additionally, some of our products incorporate oil based polymers, which are subject to price fluctuations based on the price of crude oil, as well as shortages.

Item 4. Controls and Procedures

We conducted an evaluation, under the supervision and with the participation of management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report.

Our procedures have been designed to ensure that the information relating to our company, including our consolidated subsidiaries, required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow for timely decisions regarding required disclosure. Based on this evaluation, our chief executive officer and chief financial officer concluded that as of the evaluation date our disclosure controls and procedures are effective.

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.

There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II

OTHER INFORMATION

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

Fall 2011 Offering

Pursuant to a private offering of our common stock at a price of $0.35 per share that commenced September 2011 (the "Fall 2011 Offering"), through September 30, 2011 we sold 142,858 shares of our common stock at $0.35 per share and received $50,000 gross proceeds from the sales.

Each purchaser of stock in the Fall 2011 Offering will receive, for no additional consideration, a stock purchase warrant (the "Fall 2011 Warrant") entitling the holder to purchase the same number of shares for $0.50 per share until December 31, 2012. (See Note 7.)

Winter 2011 Offering

Pursuant to a private offering of our common stock at a price of $0.35 per share that commenced January 2011 (the "Winter 2011 Offering"), through September 30, 2011 we sold 2,765,070 shares of our common stock at $0.35 per share and received $967,770 gross proceeds from the sales. Unlike our prior securities offerings, this offering did not involve the sale of convertible debt or warrants.

Summer 2010 Offering

Pursuant to a private offering of our common stock at a price of $0.30 per share, that commenced July 2010 (the "Summer 2010 Offering") and closed December 2010, we sold 3,775,012 shares of our common stock at $0.30 per share to 42 accredited investors and received $1,132,500 gross proceeds from the sales. Of these amounts, we issued 350,000 shares of common stock and received the remaining $105,000 gross proceeds during the three-month period ended March 31, 2011.

Payment of Officer Salaries and Board of Director Fees

On March 17, 2011, the Company's Compensation Committee issued 400,000 shares of the Company's common stock. Of this share issuance, 200,000 were issued to the Chief Executive Officer and the remaining 200,000 were issued to our Chief Technical Officer. The stock price was $0.41 on the date of grant, resulting in $163,168 of compensation expense.

On March 21, 2011, we issued an aggregate 190,244 shares of our common stock, at a conversion price of $0.41, which was the closing price of our common stock on the day of issuance, to our Chief Financial Officer in lieu of $78,000 in accrued and unpaid payables for their services.

Payment of Consultant Fees

On March 30, 2011, we issued an aggregate 55,515 shares of our common stock, at a conversion price of $0.48, in lieu of $30,688 of fees related to consultants.

On May 23, 2011, we issued 25,000 shares of our common stock in exchange for research and marketing services

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Conversion of Notes and Accrued Interest

On March 31, 2011, pursuant to the terms of the convertible promissory notes issued in our Spring 2008 Offering, we elected to convert the remaining aggregate principal balance of $913,625 and $76,051 of accrued and unpaid interest into an aggregate 733,108 shares of our common stock. On April 15, 2011, pursuant to the terms of the convertible promissory notes issued in our Spring 2009 Offering, we elected to convert accrued and unpaid interest of $67,041 into an aggregate 155,919 shares of our common stock, at a conversion price of $0.43.

On April 16, 2011, the holder of a note issued in our Spring 2009 Offering elected to convert the principal balance of $11,000, and accrued unpaid interest of $964, into an aggregate 21,754 shares of our common stock, at a conversion price of $0.55.

On June 1, 2011, pursuant to the terms of the convertible promissory notes issued in our Spring 2010 Offering, we elected to convert accrued and unpaid interest of $46,986 into an aggregate 100,092 shares of our common stock, at a conversion price of $0.47.

Conversion of Fall 2008 Notes

Pursuant to a private offering that commenced October 2008 (the “Fall 2008 Offering”) and terminated March 2009, we sold $723,000 of our 10% convertible notes (the “Fall 2008 Notes”), which are due and payable October 15, 2011, to 18 investors, convertible into an aggregate 1,446,000 shares of our common stock.

On October 15, 2011, per the terms of the Fall 2008 Notes, we elected to convert the remaining aggregate principal balance of $723,000 and $72,300 of accrued and unpaid interest into an aggregate 1,590,600 shares of our common 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.

Item 5. Other Information

Sublicense to Isan USA

On March 29, 2010, we entered into a sublicense agreement (the “Isan USA Sublicense”) with Isan USA, Inc. (“Isan USA”) which grants Isan USA the exclusive rights to use, exploit, develop and commercialize the Isan System Technology in the United States, in particular fields of use. Pursuant to the Isan USA Sublicense, Isan USA paid to BioLargo a $100,000 initial license fee plus additional payments of $23,000. During 2010 Isan USA was unable to secure financing, and has ceased making the monthly payments required by the Isan USA Sublicense agreement. Given the failure of Isan USA to secure financing, on August 12, 2011 we and Isan USA have mutually agreed to terminate the Isan USA Sublicense. Upon termination we recorded revenue of $109,720 of previously deferred revenue.

For the nine-month periods ended September 30, 2010 and 2011 we recorded license revenue totaling $5,000 and $115,500, respectively.

Director of International Ventures and Business Development

On August 12, 2011, we entered into an agreement with Steven V. Harrison whereby we retained Mr. Harrison to serve as our Director of International Ventures and Business Development. Mr. Harrison, formerly a member of our Board of Directors, has been working with us for some time in this role. Mr. Harrison's four year agreement provides for an annual salary of $90,000, with ten percent annual increases. In addition to salary, Mr. Harrison will receive an option to purchase 800,000 shares of common stock for $1.00 per share, which shares will vest on a monthly basis over a period of four years. Should Mr. Harrison's agreement terminate, no further shares will vest.

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Item 6. Exhibits

The exhibits listed below are attached hereto:

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).

* Filed herewith
** Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BIOLARGO, INC.

Date: November 14, 2011

By: /s/ DENNIS P. CALVERT
Dennis P. Calvert
Chief Executive Officer

Date: November 14, 2011

By: /s/ CHARLES K. DARGAN, II
Charles K. Dargan, II
Chief Financial Officer

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* Filed herewith
** Furnished herewith