BIOLARGO, INC.
Form 10-Q
May 15, 2013
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 March 31, 2013.

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

BIOLARGO, 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.)

3500 W. Garry Avenue
Santa Ana, California 92704
(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 May 13, 2013 was 72,355,919 shares.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

BIOLARGO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2012 AND MARCH 31, 2013

	December 31, 2012	March 31, 2013 (unaudited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$151,189	$90,959
Accounts receivable, net of allowance	11,606	8,440
Inventory	53,985	52,058
Total current assets	216,780	151,457
OTHER ASSETS, net of amortization	51,917	49,187
TOTAL ASSETS	$268,697	$200,644
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$339,372	$472,915
Note payable	100,000	100,000
Deferred revenue	18,997	8,768
Customer deposit	100,000	100,000
Total Current Liabilities	558,369	681,683
TOTAL LIABILITIES	558,369	681,683
COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS (Note 13)		
STOCKHOLDERS' EQUITY (DEFICIT)		
Convertible Preferred Series A, $.00067 Par Value, 50,000,000 Shares Authorized, -0- Shares Issued and Outstanding, at December 31, 2012 and March 31, 2013.	—	—
Common Stock, $.00067 Par Value, 200,000,000 Shares Authorized, 70,713,830 and 72,122,586 Shares Issued, at December 31, 2012 and March 31, 2013.	46,897	47,844
Additional Paid-In Capital	72,462,711	72,879,694

Non-controlling interest	—	36,000
Accumulated Deficit	(72,799,280)	(73,444,577)
Total Stockholders’ Equity (Deficit)	(289,672)	(481,039)
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY (DEFICIT)	$268,697	$200,644

See accompanying notes to unaudited condensed consolidated financial statements

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BIOLARGO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2013

	For the three-month periods ended March 31, 2012	2013
Revenue	$ 30,816	$ 14,363
Cost of goods sold	17,772	6,198
Gross Margin	13,044	8,165
Costs and expenses		
Selling, general and administrative	700,438	596,839
Research and development	16,311	51,393
Amortization and depreciation	1,335	2,730
Total costs and expenses	718,084	650,962
Loss from operations	(705,040)	(642,797)
Interest expense	(215,931)	(2,500)
Net loss	$ (920,971)	$ (645,297)
Loss per common share – basic and diluted		
Loss per share	$ (0.02)	$ (0.01)
Weighted average common share equivalents outstanding	59,834,382	71,357,532

See accompanying notes to unaudited condensed consolidated financial statements

BIOLARGO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2013

	Common Stock Number of Shares	Par Value $.00067	Additional Paid-In Capital	Accumulated Deficit	Non-controlling Interest	Total
BALANCE DECEMBER 31, 2012	70,713,830	$ 46,897	$ 72,462,711	$(72,799,280)	—	$ (289,672)
Issuance of stock for cash received as part of Winter 2013 PPM @ $0.30	1,366,664	919	409,081	—	—	410,000
Fees paid for Winter 2013 PPM	—	—	(41,000)	—	—	(41,000)
Cash received from Clyra Winter 2013 PPM	—	—	—	—	40,000	40,000
Fees paid for Clyra Winter 2013 PPM	—	—	—	—	(4,000)	(4,000)
Vesting portion of stock options to consultants	—	—	38,400	—	—	38,400
Issuance of stock for services to consultants	42,092	28	10,502	—	—	10,530
Net loss for the three-month period ended March 31, 2013	—	—	—	(645,297)	—	(645,297)
BALANCE MARCH 31, 2013	72,122,586	$ 47,844	$ 72,879,694	$ (73,444,577)	36,000	$ (481,039)

See accompanying notes to unaudited condensed consolidated financial statements

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BIOLARGO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2013
(unaudited)

	For the three-month periods ended March 31,	
	2012	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$(920,971)	$(645,297)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Non-cash interest expense related to the amortization of the fair value of warrants issued in conjunction with our convertible notes	186,108	—
Non-cash expense related to options issued to officers and board of directors	10,467	—
Non-cash expense related to options and warrants issued to consultants	49,289	38,400
Non-cash expense related to stock issued to consultants	44,225	—
Amortization and depreciation expense	1,335	2,730
Increase (decrease) in cash from change in:		
Accounts receivable	(7,279)	3,166
Inventory	(1,442)	1,927
Prepaid expenses	1,346	—
Other assets	(13,145)	—
Accounts payable and accrued expenses	286,918	144,073
Deferred revenue	(15,851)	(10,229)
Net Cash Used In Operating Activities	(379,000)	(465,230)
CASH FLOWS FROM INVESTING ACTIVITIES	—	—
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of stock	561,094	405,000
Net Cash Provided By Financing Activities	561,094	405,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	182,094	(60,230)
CASH AND CASH EQUIVALENTS — BEGINNING	128,498	151,189
CASH AND CASH EQUIVALENTS — ENDING	$310,592	$90,959
SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION		
Cash Paid During the Period for:		
Interest	$—	$—
Taxes	$—	$—

SUPPLEMENTAL DISCLOSURES OF NON-CASH OPERATING ACTIVITIES:		
Conversion of accrued expenses to shares of our common stock:		
Consultant obligations	$—	$10,530
Option or warrant issued to purchase shares of our common stock:		
Consultant obligations	$44,225	$—
Board of directors and officer obligations	$10,467	$—
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Conversion of noteholders’ to shares of our common stock:		
Conversion of a 2010 Spring Note and related accrued interest obligation	$27,034	$—

See accompanying notes to unaudited condensed consolidated financial statements

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 $645,297 for the three-month period ended March 31, 2013, and at March 31, 2013, we had negative working capital of $530,226, current assets of $151,457, and an accumulated stockholders' deficit of $73,444,577. 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 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 $90,959 at March 31, 2013. We generated revenues of $14,363 in the three-month period ended March 31, 2013, which amount was not sufficient to fund our operations. 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 March 31, 2013, we had $100,000 principal amount outstanding on a note payable (see Note 11), and $472,915 of outstanding accounts payable. (See Note 10.)

During the three-month period ended March 31, 2013, we received $405,000 net proceeds pursuant to our private securities offerings. (See Note 5.)

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.

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 three-month period ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ended December 31, 2013, 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, 2012 filed with the Securities and Exchange Commission (the "SEC") on March 30, 2013.

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

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, 2012	March 31, 2013
Raw materials	$ 43,395	$ 44,635
Finished goods (see Note 4)	10,590	7,423
Total inventory	$ 53,985	$ 52,058

Equipment

For the three-month periods ending March 31, 2012 and 2013 we recorded depreciation expense totaling $1,335 and $0, respectively.

Other Assets

Other Assets consists of payments made to purchase patents related to our efforts in commercializing the ISAN system.

For the three-month periods ending March 31, 2012 and 2013 we recorded amortization expense totaling $0 and $2,730, respectively.

We review intangible assets using our best estimates based on reasonable assumptions and projections. An impairment loss to write such assets down to their estimated fair values is necessary if the carrying values of the assets exceed their related undiscounted expected future cash flows. We also determine impairment whenever events or changes in circumstances indicate that their carrying values may not be recoverable.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ from those estimates. Estimates are used when accounting for stock-based transactions, uncollectible accounts receivable, asset depreciation and amortization, and taxes, among others.

Share-based Payments

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.

During the three-month periods ended March 31, 2012 and 2013 we recorded an aggregate $40,756 and $19,400 in selling general and administrative expense related to options issued pursuant to the 2007 Plan.

During the three-month periods ended March 31, 2012 and 2013 we recorded an aggregate $19,000 and $19,000 in selling general and administrative expense related to options issued outside of the 2007 Plan.

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

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-month periods ended March 31, 2012 and 2013, 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.

Recent Accounting Pronouncements

There was no recent accounting guidance issued where the adoption would have a material effect on our condensed consolidated financial statements.

Note 3. Customer 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). Pursuant to the Central contract, we received a $100,000 non-refundable deposit which would be credited against future orders, if any.

The rights granted to Central remain exclusive so long as Central purchases a minimum amount of product at various times, as set forth in the agreement. The agreement terminates only upon uncured breach of material warranty or obligation.

On February 11, 2013, we gave Central written notice of their failure to purchase the minimum required product from us to maintain exclusive rights to our technology in the “pet supplies industry” pursuant to the agreement. To maintain exclusive rights, within 60 days of our written notice Central must have either purchased the minimum amount of product or compensate us for lost profits as if they had done so.

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

Note 4. Deferred Revenue

Horn Warehouse

Our distribution partner, Horn (formerly the E.T. Horn Company), warehouses our product and makes it available to us for later sales, and thus for revenue recognition purposes, prior sales to Horn have been deferred until such time as the product is sold to retailers and/or end-users. As of March 31, 2013, a balance of $8,768 relating to the sale of Odor-No-More product to Horn remains as deferred revenue.

Note 5. Private Securities Offerings

Winter 2013 Private Securities Offering

Pursuant to a private offering of our common stock at a price of $0.30 per share that commenced January 2013, through March 31, 2013, we sold 1,366,667 shares of our common stock to eight accredited investors and received $410,000 gross and $369,000 net proceeds from the sales.

Each purchaser of stock will receive, for no additional consideration, a stock purchase warrant entitling the holder to purchase the same number of shares as purchased in the offering, for $0.55 per share until July 30, 2015.

Clyra Winter 2012 Private Securities Offering

On December 17, 2012, our subsidiary Clyra (see Note 12) began a private securities offering, selling up to 1,000 shares of its common stock at $1,000 per share. Through March 31, 2013, Clyra sold 40 shares of its common stock to one accredited investor and received $40,000 gross and $36,000 net proceeds from the sale.

The offering originally provided that each Clyra investor would have the right to convert one share of Clyra common stock into 2,858 shares of BioLargo common stock, by tendering the share to BioLargo, and in connection with that conversion, will receive a warrant to purchase an equal number of shares of BioLargo common stock at 55 cents per share until July 30, 2015. Subsequent to March 31, 2013, the terms of offering were modified. (See Note 13.)

Summer 2012 Offering

Pursuant to a private offering of our common stock that commenced May 2012 (the “Summer 2012 Offering”) and closed in November 2012, we sold 2,771,671 shares of our common stock at $0.35 per share to 15 accredited investors and received $970,086 gross, $918,586 net proceeds from the sales. Each purchaser of stock in the Summer 2012 Offering received, for no additional consideration, a stock purchase warrant (the “Summer 2012 Warrant”) entitling the holder to purchase the same number of shares as purchased in the offering, for $0.50 per share until March 31, 2014. (See Note 7.) On October 23, 2012, we amended the original terms of the offering by reducing the price of the common stock sold from $0.40 to $0.35 per share, and reducing the exercise price of the warrant from $0.55 to $0.50 per share.

Winter 2012 Offering

Pursuant to a private offering of our common stock at a price of $0.35 per share that commenced January 2012 and closed May 2012 (the “Winter 2012 Offering”), we sold 3,127,914 shares of our common stock at $0.35 per share to 30 accredited investors and received $1,094,765 gross and $1,040,315 net proceeds from the sales.

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

Each purchaser of stock in the Winter 2012 Offering received, for no additional consideration, a stock purchase warrant (the "Winter 2012 Warrant") entitling the holder to purchase the same number of shares as purchased in the offering, for $0.50 per share until January 31, 2013. (See Note 7.)

Fall 2011 Offering

Pursuant to a private offering of our common stock at a price of $0.35 per share that commenced September 2011 and closed December 31, 2011 (the "Fall 2011 Offering"), we sold 1,335,201 shares of our common stock at $0.35 per share to 16 accredited investors and received subscriptions $467,317 gross and net proceeds. In the year ended December 31, 2011, we received $370,723 gross proceeds and issued 1,059,215 shares of our common stock. In January 2012 we received the remaining $96,594 from subscriptions committed prior to the termination of the offering and issued 275,986 shares of our common stock.

Each purchaser of stock in the Fall 2011 Offering received, for no additional consideration, a stock purchase warrant (the "Fall 2011 Warrant") entitling the holder to purchase the same number of shares of common stock for $0.50 per share until December 31, 2012. On December 27, 2012, we extended the expiration date of the warrant by one year, to expire December 31, 2013. (See Note 7.)

Note 6. Conversion of Notes

As of December 31, 2012 each of our convertible Notes and related accrued and unpaid interest have been converted into shares of our common stock at a conversion rate set forth in the respective convertible Note offering.

Spring 2010 Notes

On December 27, 2012, our Board elected to convert the $413,775 outstanding principal amount of promissory notes issued in our Spring 2010 Offering (see Note 5) into 720,443 shares of our common stock at the conversion rate set forth in the notes of $0.575 per share. The Spring 2010 notes were set to mature on April 15, 2013. As consideration for the early termination, we paid accrued interest through the April 15, 2013 maturity date (see Note 10), and extended the January 15, 2013 expiration of the Spring 2010 Thirty-Six Month stock purchase warrant by a period of one year, such that the warrants now expire on January 15, 2014 (see Note 7).

On February 6, 2012, a holder of a convertible promissory note issued in our Spring 2010 Offering (see Note 5) elected to convert the principal balance of $25,000 into 43,478 shares of our common stock, at a conversion rate set forth in the notes of $0.575 per share.

During 2012, interest of $84,845 related to these notes was converted into 201,053 shares.

Spring 2009 Notes

On their June 1, 2012 maturity date, we elected to convert the remaining aggregate principal balance of $670,410 of our Spring 2009 Notes (see Note 5) into an aggregate 1,218,927 shares of our common stock at a conversion price of $0.55 per share.

On April 16, 2011, the holder of a note issued in our Spring 2009 Offering elected to convert the principal balance of $11,000 into an aggregate 20,000 shares of our common stock, at a conversion price of $0.55.

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

During 2012, interest of $56,041 related to these notes was converted into 101,893 shares.

Note 7. Warrants

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

	Number of Shares	Price Range
Outstanding as of December 31, 2011	7,280,683	$0.125 — 2.00
Issued	1,603,993	$0.50
Exercised	—	$—
Expired	—	$—
Outstanding as of March 31, 2012	8,884,676	$0.125 — 1.00

	Number of Shares	Price Range
Outstanding as of December 31, 2012	8,390,741	$0.125 — 1.00
Issued	1,366,664	$0.55
Exercised	—	$—
Expired	(1,225,898)	$1.00
Outstanding as of March 31, 2013	8,531,507	$0.125 – 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:

	2012	2013
Risk free interest rate	.22 – 1.87%	—%
Expected volatility	150– 558%	—%
Expected dividend yield	N/A	—
Forfeiture rate	N/A	—
Expected life in years	0.50 – 3.00	2.5

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 $186,108 and $0 of interest expense related to the amortization of the discount on convertible notes for the three-month periods ended March 31, 2012 and 2013, respectively.

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

Winter 2013 Warrants

Pursuant to the terms of our Winter 2013 Offering (see Note 5), during the three-month period ended March 31, 2013, we issued warrants to purchase up to an aggregate 1,366,664 shares of our common stock to the investors in the Offering at an exercise price of $0.55 per share. These warrants are set to expire June 15, 2015.

Summer 2012 Warrants

Pursuant to the terms of our Summer 2012 Offering (see Note 5), during 2012 we issued warrants to purchase up to an aggregate 2,771,671 shares of our common stock to the investors in the Offering. On October 23, 2012, we amended the terms of the Summer 2012 Offering (see Note 5) by reducing the exercise price from $0.55 to $0.50 per share. These warrants are set to expire on March 31, 2014 and have an exercise price of $0.50 per share.

Winter 2012 Warrants

Pursuant to the terms of our Winter 2012 Offering (see Note 5), during 2012 we issued warrants to purchase up to an aggregate 3,127,914 shares of our common stock to the investors in the Offering. These warrants expire on June 01, 2013 and have an exercise price of $0.50 per share.

Fall 2011 Warrants

From the inception of our Fall 2011 Offering in September 2011 through March 31, 2012, we issued warrants to purchase up to an aggregate 1,335,201 shares of our common stock to the purchaser of stock in our Fall 2011 Offering. These warrants were set to expire on December 31, 2012 and have an exercise price of $0.50 per share. On December 27, 2012, the expiration date of these warrants was extended by a period of one year, such that the warrants now expire on December 31, 2013. The fair value of the extension was an aggregate $102,852 and was recorded as interest expense upon issuance.

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 were initially set to expire 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. On December 27, 2012, the expiration date of the Spring 2010 Three-Year Warrant was extended from the January 15, 2013 expiration of the investor's stock purchase warrant by a period of one year, such that the warrants now expire on January 15, 2014.

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 $57,089 and was expensed ratably through the expiration period of January 15, 2012. This warrant expired January 15, 2012, unexercised.

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 were set to expire June 1, 2012, at an exercise price of $1.00 per share.

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

On June 1, 2012, we extended by nine months the expiration date of the Spring 2009 Three-Year Warrants to March 1, 2013. The fair value of the extension was an aggregate $95,885 and was recorded as interest expense upon issuance. The Spring 2009 One-Year Warrants expired unexercised on December 1, 2010, and the Spring 2009 Three-Year Warrants expired unexercised on March 1, 2013.

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.

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 resulting in a fair value of $180,172. Of this amount, $30,029 was expensed during 2011 and the remaining $150,143 was recorded as interest expense during the three-month period ended March 31, 2012.

Other Warrants

On December 28, 2012, the noteholder of our note payable (see Note 11) agreed to extend the maturity date of the note by a period of one year to December 3, 2013. As consideration for the extension, we issued a warrant to purchase 50,000 shares of common stock at $0.50 cents per share, resulting in a fair value of $6,805 recorded as interest expense. The warrant is exercisable until June 3, 2014.

On July 23, 2012, we issued a warrant to a consultant for services provided to purchase up to an aggregate 250,000 shares of our common stock at an exercise price of $0.40 per share, resulting in a fair value of $67,500, of which $62,100 was recorded as selling, general and administrative expense during the year ended December 31, 2012 and the remaining was expensed in the three-month period ended March 31, 2013. The warrant expires July 23, 2017.

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, 2012 and March 31, 2013 there were no outstanding shares of our preferred stock.

Common Stock

As of December 31, 2012 and March 31, 2013 there were 70,713,830 and 72,122,586 shares of common stock outstanding, respectively. The increase in shares during the three-month period ended March 31, 2013 is comprised of the following stock issuances: (i) 1,366,664 shares of our common stock issued to investors in our Winter 2013 Offering, and (ii) 42,092 shares as payment to consultants in lieu of accrued and unpaid obligations.

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

2007 Equity Incentive Plan

On August 7, 2007, and as amended April 29, 2011, 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.

During the three-month periods ended March 31, 2012 and 2013, a portion of the unvested option issuances vested, resulting in selling, general and administrative expense of $30,289 and 19,400, respectively.

During the three-month period ended March 31, 2012, we recorded the issuance of an option to purchase an aggregate 6,667 shares of our common stock to an 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 $0.34 per share, the price of our common stock on the grant date. The fair value of this option totaled $2,267 and was recorded as selling, general and administrative expense.

Activity for our stock options under the 2007 Plan for the three-month periods ended March 31, 2012 and 2013 is as follows:

As of March 31, 2012:	Options Outstanding	Shares Available	Price per share	Weighted Average Price per share
Balances as of December 31, 2011	7,739,258	4,260,742	$0.23— 1.89	$ 0.42
Granted	6,667	(6,667)	0.34	0.34
Exercised	—	—	—	—
Canceled	—	—	—	—
Balances as of March 31, 2012	7,745,925	4,254,075	$0.23— 1.89	$ 0.46

As of March 31, 2013:	Options Outstanding	Shares Available	Price per share	Weighted Average Price per share
Balances as of December 31, 2012	8,521,086	4,460,742	$0.23— 1.89	$ 0.44
Granted	—	—	—	—
Exercised	—	—	—	—
Canceled	—	—	—	—
Balances as of March 31, 2013	8,521,086	4,460,742	$0.23— 1.89	$ 0.44

Options issued Outside of the 2007 Equity Incentive Plan

During the three-month periods ended March 31, 2012 and 2013 we recorded an aggregate $19,000 in selling general and administrative expense related to options issued outside of the 2007 Plan.

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Activity of our stock options issued outside of the 2007 Plan for the three-month periods ended March 31, 2012 and 2013 is as follows:

As of March 31, 2012:	Options Outstanding	Price per share	Weighted Average Price per share
Balances as of December 31, 2011	11,671,484	$0.25 — 1.89	$ 0.43
Granted	—	—	—
Exercised	—	—	—
Canceled	—	—	—
Balances as of March 31, 2012	11,671,484	$0.25 — 1.89	$ 0.43

As of March 31, 2013:	Options Outstanding	Price per share	Weighted Average Price per share
Balances as of December 31, 2012	13,338,220	$0.18 — 1.00	$ 0.41
Granted	—	—	—
Exercised	—	—	—
Canceled	—	—	—
Balances as of March 31, 2013	13,338,220	$0.18 — 1.00	$ 0.41

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 three-month period ended March 31:

	2012		2013	
	Non Plan	2007 Plan	Non Plan	2007 Plan
Risk free interest rate	—	1.81%	—	—
Expected volatility	—	906%	—	—
Expected dividend yield	—	—	—	—
Forfeiture rate	—	—	—	—
Expected life in years	—	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.

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.

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Note 10. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included the following:

	December 31, 2012	March 31, 2013
Accounts payable and accrued expenses	$ 334,699	$ 367,307
Accrued interest	—	2,500
Officer and Board of Director Payables	4,673	103,108
Total Accounts Payable and Accrued Expenses	$ 339,372	$ 472,915

Payment of Consultant Fees

On January 4, 2013, we issued an aggregate 42,092 shares of our common stock, at a conversion price of $0.25, as payment for $10,530 of selling, general and administrative expense.

On January 31, 2012, we issued an aggregate 30,147 shares of our common stock, at a conversion price of $0.31, as payment for $9,225 of selling, general and administrative expense.

On March 6, 2012, we issued 100,000 shares of our common stock at a conversion price of $0.35 per share, and recorded $35,000 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

During the three-month periods ended March 31, 2012 and 2013, we recorded $29,832 and $2,500 of interest expense, 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.

Note 11. Notes Payable

On June 8, 2010, we received $100,000 and issued a promissory note with an initial 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.) The maturity date of the note was extended to December 3, 2011, and again, to December 3, 2012.

On December 28, 2012, the note holder agreed to extend the maturity date of the note by a period of one year to December 3, 2013. As consideration for the extension, we issued the noteholder 60,000 shares of our common stock at

$0.25 per share and recorded $15,000 in interest expense, and a warrant to purchase 50,000 shares of common stock at $0.50 cents per share, exercisable until June 3, 2014. (See Note 7.)

BIOLARGO, INC. AND SUBSIDIARIES
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For the three-month period ended March 31, 2012 and 2013 we recorded interest expense of $2,668 and $2,500, respectively.

Note 12. Non-Controlling Interest

In May 2012 we formed a subsidiary for the purpose of marketing and selling medical products containing our technology, Clyra Medical Technology, Inc. (“Clyra”). Until December 17, 2012, this subsidiary was wholly owned, with 7,500 shares issued to BioLargo, Inc. On December 17, 2012, Clyra signed executive employment agreements with three individuals, in which each was granted 500 shares of Clyra common stock, one-third of which vested immediately, and the remaining over time. The shares granted to the three executives are restricted from transfer until a sale of the company, whether by means of a sale of its stock or substantially all of its assets, or otherwise by agreement of Clyra, BioLargo and the executives. Given that Clyra was formed in 2012, had no operating history and no assets at the time of the stock grant, and the significant restrictions on sale placed on the shares issued to the executives, the value of such shares was considered to be insignificant on the date of grant.

For the three-month period ended March 31, 2013, the financial impact of Clyra’s operations were de minimis as it relates to the non-controlling interest.

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.

Winter 2013 Private Securities Offering

Pursuant to a private offering of our common stock at a price of $0.30 per share that commenced January 2013, from March 31, 2013 through May 13, 2013, we sold 633,333 shares of our common stock to two accredited investors and received $190,000 gross and $171,000 net proceeds from the sales. (See Note 5.)

Clyra Securities Offering

On December 17, 2012, our subsidiary Clyra began a private securities offering (see Note 5), selling up to 1,000 shares of its common stock at $1,000 per share. Subsequent to March 31, 2013, Clyra modified the terms of its offering, such that, in addition to shares of Clyra common stock, each Clyra investor would receive a warrant to purchase an additional number of shares of Clyra common stock as originally purchased by the investor, at a price of 1,833.33 per share, until July 30, 2015.

Additionally, the offering terms were modified to increase the number of shares of BioLargo common stock into which the Clyra investor could convert his or her Clyra shares, from 2,858 to 3,333 and 1/3 shares of BioLargo common stock. The date until which the investor may tender Clyra shares to BioLargo for conversion was extended to July 30, 2015. The Clyra investors will not receive any further warrants to purchase additional BioLargo common stock.

Relocation of Corporate Office

As disclosed on our Current Report on Form 8-K filed May 2, 2013, we relocated our corporate office to 3500 W. Garry Avenue, Santa Ana, California 92704.

Customer Deposit – Central Garden & Pet

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). Pursuant to the Central contract, we received a $100,000 non-refundable deposit which would be credited against future orders, if any.

On February 11, 2013, we gave Central written notice of their failure to purchase the minimum required product from us to maintain exclusive rights to our technology in the “pet supplies industry” pursuant to the agreement. To maintain exclusive rights, within 60 days of our written notice Central must have either purchased the minimum amount of product or compensate us for lost profits as if they had done so.

Central failed to purchase products from us prior to the expiration of the 60-day period, and failed to otherwise compensate us for lost profits. As such, as of April 12, 2013, Central has lost its exclusive rights to our technology in the “pet supplies industry”, and we are free to pursue other options to sell or license products in that industry.

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, 2012. Unless otherwise expressly stated herein, all statements, including forward-looking statements, set forth in this Form 10-Q are as of March 31, 2013, unless expressly stated otherwise, and we undertake no duty to update this information.

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

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 core of this innovative technology is the accurate and safe delivery of iodine in a wide range of forms, moieties and conditions. Iodine is an essential nutrient and all natural broad-spectrum disinfectant with no known microbial resistance. When used effectively, it can keep people and the world safer from disease and infection, and can be engaged as a powerful oxidant and catalyst to keep our water, earth, and air clean, safe, and healthy. Our goal is to target our capabilities to create and utilize iodine to improve the quality of life for people worldwide, to protect the environment, all while producing positive economic results for our customers, partners, and shareholders.

Our products offer a solution to an array of pervasive problems, including odor, moisture control, disinfection, wound healing and contaminated water. The iodine most of us are familiar with, sold in pharmacies and used by hospitals, has severe limitations – it is considered toxic, causes staining, and contains a limited dose of the active oxidizing ingredient. Our technology, on the other hand, directly addresses many of these shortcomings – we can deliver iodine’s oxidizing ingredient (“free iodine”) with precision, ranging from very small doses up to very large doses with more than 20 times the power of traditional iodine. We can deliver iodine so that it is both non-toxic and non-staining, thus extending its usefulness well beyond historical product applications. Consequently, we feel our best advantage is to leverage iodine’s breadth to develop uses and products that offer a competitive edge against other technologies. These uses can secure BioLargo its highest value proposition, resulting in sales and licensing opportunities.

The centerpieces of our technology are embodied by our patented and proprietary CupriDyne® and its methods of delivery, the Isan system, and our new “Advanced Oxidation System.” These technologies offer a nearly seamless range of capabilities for the generation, delivery and control of iodine and implementation of iodine in most of its moieties.

Although our technology has potential commercial applications within many industries, we are focusing our efforts in three areas:

1. The companion animal industry, as a segment of the commercial, household and personal products (“CHAPP”);
2. Advanced wound care; and
3. Water treatment.

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

Commercial, Household and Personal Care Products

CHAPP includes broad product categories and many opportunities for the application of our technology. It is defined by the ability to utilize similar, if not identical, consumption products in multiple market segments. Detergents, single use absorbents, wipes, products that provide odor or disinfection control, and stain removal all fall within this category. Packaging ranges from consumer sizes of a few ounces to bulk packaging for commercial or industrial use.

We are currently marketing products in this category under three brands – Odor-No-More, Nature's Best Solution, and Deodorall. A third party distributor markets "Deodorall Sport", primarily to the ice hockey industry. We have retained sales representative agencies who specialize in various aspects of the retail market, including pet and mass merchant, to have our products placed and national retailers. Those efforts are ongoing. As of yet, our sales in these brands are nominal.

Advanced Wound Care – Clyra Medical Technologies Subsidiary

In 2012 we formed a subsidiary Clyra Medical Technologies, Inc. ("Clyra") to commercialize our technology in the medical products industry, with an initial focus on advanced wound care. Our formulated advanced wound care products combine broad-spectrum antimicrobial capabilities with iodine's natural and well-understood metabolic pathway to promote healing. We believe these benefits, along with reduced product costs as compared with other antimicrobials, give our products a competitive advantage in the marketplace.

In late 2012, Clyra organized a strategic supply agreement with Formulated Solutions, a state-of-the-art FDA registered drug and device manufacturing company in Florida, to make final preparations and apply for a FDA 510(k) approval for its first two products to be sold into the advanced wound care industry. While no assurances can be made about the ultimate success of such applications, given the forward looking nature of such events, the company has retained and engaged a team of experts in the area to guide the company through the process and is not aware of any inherent technical or practical reason that its products would not receive the approvals sought. Given the timing of the FDA process, and the requirement for approval before product can be sold, we do not anticipate product sales until the first half 2014. In the interim, we will continue to seek licensing partners, and refine our product roll out, marketing, and distribution plans.

Results of Operations—Comparison of the three-month periods ended March 31, 2013 and 2012

Revenue

We generated $14,363 in revenues during the three-month period ended March 31, 2013, and $30,816 in revenues during the three-month period ended March 31, 2012. Our revenue in the three-month period ended March 31, 2013, consisted primarily of sales of our Deodorall branded sports equipment spray, and Odor-No-More branded Animal Bedding Additive. The revenue for the in the three-month period ended March 31, 2012, consisted primarily of sales of our Odor-No-More branded products (our Animal Bedding Additive, Cat Litter Additive, and Facilities and Equipment Wash).

Cost of Goods Sold

Our cost of goods sold was $6,198 or 43% of revenues for the three-month period ended March 31, 2013, as compared with $17,772, or 58% of revenues for the three-month period ended March 31, 2012. Our cost of goods sold includes costs of raw materials, contract manufacturing, and proportions of salaries and expenses related to the sales and marketing efforts of our Odor-No-More branded products. Because we have not achieved a meaningful revenue base, and our number of products is increasing, the inclusion of the fixed costs related to the product development and manufacturing increases our cost of goods disproportionately, resulting in high percentage fluctuations.

Selling, General and Administrative Expense

Selling, General and Administrative expenses were $596,839 for the three-month period ended March 31, 2013, compared to $700,438 for the three-month period ended March 31, 2012, a decrease of $103,599. The largest components of these expenses were:

a. Salaries and Payroll-related Expenses: These expenses were $183,390 for the three-month period ended March 31, 2013, compared to $194,472 for the three-month period ended March 31, 2012, a decrease of $11,082. There were no cash bonuses, issuances of stock or options to our executives during the three-month period ended March, 31, 2013 as compared to 2012 where we issued stock bonuses to our Chief Executive Officer, Chief Technology Officer and Secretary and the expense related to the fair value of the stock issuance to our Chief Executive Officer and Chief Technology Officer.

b. Consulting Expenses: These expenses were $191,131 for the three-month period ended March 31, 2013, compared to $242,357 for the three-month period ended March 31, 2012, a decrease of $51,226. The decrease is primarily attributable to a reduced amount of non-cash stock option compensation expense and stock issued for services to consultants in the three months ended March 31, 2013 versus 2012.

c. Professional Fees: These expenses were $75,325 for the three-month period ended March 31, 2013, compared to $93,358 for the three-month period ended March 31, 2012, a decrease of $18,033. This decrease is consistent with our usage of professionals for accounting and legal costs associated with our operations.

Research and Development

Research and development expenses were $51,393 for the three-month period ended March 31, 2013, compared to $16,311 for the three-month period ended March 31, 2012, an increase of $35,082. The increase is related to product research and product development and testing related to our Odor-No-More and Clyra products.

Interest expense

Interest expense totaled $2,500 for the three-month period ended March 31, 2013, compared to $215,931 for the three-month period ended March 31, 2012, a decrease of $213,431. The decrease is primarily due to the reduction of interest expense related to the conversion of all of our outstanding convertible notes with warrants in the fourth quarter of 2012.

Net Loss

Net loss for the three-month period ended March 31, 2013 was $645,297, a loss of $0.01 per share, compared to a net loss for the three-month period ended March 31, 2012 of $920,971, a loss of $0.02 per share. The decrease in net loss for the three-month period ended March 31, 2012 is primarily a reduction of interest expense related to the conversion of all of our outstanding convertible notes and a reduction in compensation expense to consultants from the reduced issuance of stock options.

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 $90,959 at March 31, 2013. We had negative working capital of $530,226 as of March 31, 2013, compared with negative working capital of $1,425,507 as of March 31, 2012. We had negative cash flow from operating activities of $465,230 for the three-month period ended March 31, 2013, compared to a negative cash flow from operating activities of $379,000 for the three-month period ended March 31, 2012. 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 $645,297 for the three-month period ended March 31, 2013, and an accumulated stockholders' deficit of $73,444,577 as of March 31, 2013. 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 March 31, 2013, we had $100,000 principal amount outstanding on a note payable (see Note 11), and $472,915 of outstanding accounts payable. (See Note 10.)

During the three-month period ended March 31, 2013, we received an aggregate $405,000 net proceeds pursuant to our private securities offerings, consisting of $369,000 from our Winter 2013offering, and $36,000 from the Clyra private securities offering. (See Note 5.)

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.

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.

It 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 impact of adoption 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.

PART II

OTHER INFORMATION

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

Winter 2013 Private Securities Offering

Pursuant to a private offering of our common stock at a price of $0.30 per share that commenced January 2013, through March 31, 2013, we sold 1,366,667 shares of our common stock to eight accredited investors and received $410,000 gross and $369,000 net proceeds from the sales.

Each purchaser of stock will receive, for no additional consideration, a stock purchase warrant entitling the holder to purchase the same number of shares as purchased in the offering, for $0.55 per share until June 30, 2015.

Clyra Winter 2012 Private Securities Offering

On December 17, 2012, our subsidiary Clyra began a private securities offering, selling up to 1,000 shares of its common stock at $1,000 per share. Through March 31, 2013, Clyra sold 40 shares of its common stock to one accredited investors and we received $40,000 gross and $36,000 net proceeds from the sale.

Each Clyra investor will have the right to convert one share of Clyra common stock into 2,858 shares of BioLargo common stock, by tendering the share to BioLargo, and in connection with that conversion, will receive a warrant to purchase an equal number of shares of BioLargo common stock at 55 cents per share until July 30, 2015. The investor's right to convert expires June 30, 2014. No investments were received during the year ended December 31, 2012.

Payment of Consultant Fees

On January 4, 2013, we issued an aggregate 42,092 shares of our common stock, at a conversion price of $0.25, as payment for $10,530 of selling, general and administrative expense.

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 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).
101.INS**	XBRL Instance
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation
101.DEF**	XBRL Taxonomy Extension Definition
101.LAB**	XBRL Taxonomy Extension Labels
101.PRE**	XBRL Taxonomy Extension Presentation

* 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: May 14, 2013	By: /s/ DENNIS P. CALVERT Dennis P. Calvert Chief Executive Officer
Date: May 14, 2013	By: /s/ CHARLES K. DARGAN, II Chief Financial Officer

EXHIBIT INDEX

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