

BIOLARGO, INC.  
Form 10-Q  
November 13, 2013  
Table Of Contents

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2013.**

**or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 000-19709**

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**BIOLARGO, INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**                      **65-0159115**  
*(State or other jurisdiction of (I.R.S. Employer*  
*incorporation or organization) 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)*

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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      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      No

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

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

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

The number of shares of the Registrant's Common Stock outstanding as of November 13, 2013 was 74,475,421 shares.

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Table Of Contents

**BIOLARGO, INC.**

**FORM 10-Q**

**INDEX**

**PART I**

<b><u>Item 1</u></b> Financial Statements	3
<b><u>Item 2</u></b> Management's Discussion and Analysis and Financial Condition and Results of Operations	21
<b><u>Item 4</u></b> Controls and Procedures	28

**PART II**

<b><u>Item 2</u></b> Unregistered Sales of Equity Securities and Use of Proceeds	29
<b><u>Item 6</u></b> Exhibits	30

**Exhibit Index**

**Exhibit No. Description of Exhibit**

4.1*	Prommisory Note in the face amount of \$75,000 dated October 28, 2013.
10.01†	Engagement Extension Agreement dated as of July 17, 2013 between BioLargo, Inc. and Charles K. Dargan, II. (1)
Exhibit 31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13(a)-14 and 15(d)-14 under the Securities Exchange Act of 1934
Exhibit 31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13(a)-14 and 15(d)-14 under the Securities Exchange Act of 1934
Exhibit 32*	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.
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

† Management contract or compensatory plan, contract or arrangement

\* Filed herewith

\*\* Furnished herewith

(1) Incorporated herein by reference from the Form 8-K filed by the Company on July 18, 2013.

Table Of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****BIOLARGO, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****AS OF DECEMBER 31, 2012 AND SEPTEMBER 30, 2013**

	<b>December 31, 2012</b>	<b>September 30, 2013  (unaudited)</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 151,189	\$ 53,482
Accounts receivable, net of allowance	11,606	1,268
Inventory	53,985	35,924
Prepaid expense	—	3,575
 Total current assets	 216,780	 94,249
 OTHER ASSETS, net of amortization	 51,917	 43,727
 TOTAL ASSETS	 \$ 268,697	 \$ 137,976
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 339,372	\$ 401,307
Note payable	100,000	100,000
Deferred revenue	18,997	—
Customer deposit	100,000	—
Total current liabilities	558,369	501,307

TOTAL LIABILITIES	558,369	501,307
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 September 30, 2013.	—	—
Common Stock, \$.00067 Par Value, 200,000,000 Shares Authorized, 70,713,830 and 74,475,421 Shares Issued, at December 31, 2012 and September 30, 2013.	46,897	49,424
Additional Paid-In Capital	72,462,711	74,369,574
Non-controlling interest	—	(100,457 )
Accumulated Deficit	(72,799,280)	(74,681,872)
Total Stockholders' Equity (Deficit)	(289,672 )	(363,331 )
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$268,697	\$137,976

See accompanying notes to unaudited condensed consolidated financial statements

Table Of Contents**BIOLARGO, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2012 AND 2013**

	For the three-month periods		For the nine-month periods	
	ended September 30, 2012 (unaudited)	ended September 30, 2013 (unaudited)	ended September 30, 2012 (unaudited)	ended September 30, 2013 (unaudited)
Revenue				
License revenue	\$—	\$—	\$—	\$100,000
Product revenue	10,490	18,418	55,145	52,764
Total revenue	10,490	18,418	55,145	152,764
Cost of goods sold	6,857	8,381	32,706	23,563
Gross margin	3,633	10,037	22,439	129,201
Costs and expenses				
Selling, general and administrative	760,584	536,026	2,871,648	1,470,936
Research and development	122,268	267,861	307,754	603,568
Amortization and depreciation	312	2,730	1,958	8,190
Total costs and expenses	883,164	806,617	3,181,359	2,082,694
Loss from operations	(879,531 )	(796,580 )	(3,158,920 )	(1,953,493 )
Interest expense, net	(36,137 )	(2,528 )	(454,074 )	(240,556 )
Net loss	\$(915,668 )	\$(799,108 )	\$(3,612,994 )	\$(2,194,049 )
Net Loss (non-controlling interests)	—	(100,635 )	—	(311,457 )
Net Loss (controlling interests)	(915,668 )	(698,473 )	(3,612,994 )	(1,882,592 )
Loss per common share – basic and diluted				
Loss per share	\$(0.01 )	\$(0.01 )	\$(0.06 )	\$(0.03 )
Weighted average common share equivalents outstanding	65,289,303	73,178,574	62,674,578	72,416,172

See accompanying notes to unaudited condensed consolidated financial statements





Table Of Contents**BIOLARGO, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)  
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2013****(unaudited)**

	<b>Common Stock</b>		<b>Additional</b>	<b>Accumulated</b>	<b>Non-controlling</b>	
	<b>Number of</b>	<b>Par</b>	<b>Paid-In</b>	<b>Deficit</b>	<b>Interest</b>	<b>Total</b>
	<b>Shares</b>	<b>Value</b>	<b>Capital</b>			
		<b>\$.00067</b>				
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	2,333,329	1,569	698,431	—	—	700,000
Fees paid for Winter 2013 PPM	—	—	(67,000 )	—	—	(67,000 )
Issuance of stock for cash received as part of Summer 2013 PPM @ \$0.25	220,000	149	54,851	—	—	55,000
Fees paid for Summer 2013 PPM	—	—	(5,500 )	—	—	(5,500 )
Cash received from Clyra Winter 2013 PPM	—	—	—	—	215,000	215,000
Fees paid for Clyra Winter 2013 PPM	—	—	—	—	(4,000 )	(4,000 )
Fair value of one-year extension for 2012 Warrant	—	—	233,000	—	—	233,000
Issuance of stock for services to consultants	242,602	162	71,459	—	—	71,621
Issuance of options for accrued and unpaid obligations to vendors	—	—	379,871	—	—	379,871
Issuance of stock for accrued and unpaid obligations to officers	965,660	647	289,051	—	—	289,698
Issuance of options to board of directors	—	—	252,700	—	—	252,700
Net loss for the nine-month period ended September 30,	—	—	—	(1,882,592 )	(311,457 )	(2,194,049)

2013

BALANCE SEPTEMBER 30, 74,475,421 \$49,424 \$74,369,574 \$(74,681,872) (100,457 ) \$(363,331 )  
2013

See accompanying notes to unaudited condensed consolidated financial statements

5

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Table Of Contents**BIOLARGO, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2012 AND 2013****(unaudited)**

	For the nine -month periods ended	
	September 30, <b>2012</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Loss	\$(3,612,994)	\$(2,194,049)
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	386,818	233,000
Non-cash expense related to options issued to officers and board of directors	779,821	252,700
Non-cash expense related to stock issued to officers	—	289,698
Non-cash expense related to options and warrants issued to consultants	334,876	329,771
Non-cash expense related to stock issued to consultants	80,174	57,516
Amortization and depreciation expense	1,958	8,190
Increase (decrease) in cash from change in:		
Accounts receivable	3,222	10,338
Inventory	9,534	18,061
Prepaid expenses	1,346	(3,575 )
Customer deposit	—	(100,000 )
Other assets	(13,145 )	—
Accounts payable and accrued expenses	396,403	126,140
Deferred revenue	(30,114 )	(18,997 )
 Net Cash Used In Operating Activities	 (1,662,101)	 (991,207 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	—	—
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from sale of stock	1,961,445	682,500
Proceeds from sale of stock in subsidiary	—	211,000
 Net Cash Provided By Financing Activities	 1,961,445	 893,500

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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	299,344	(97,707 )
CASH AND CASH EQUIVALENTS — BEGINNING	128,498	151,189
CASH AND CASH EQUIVALENTS — ENDING	\$427,842	\$53,482

SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION

Cash Paid During the Period for:

Interest	\$—	\$—
Taxes	\$4,347	\$2,782

SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING AND INVESTING ACTIVITIES:

Fair value of warrant extension	\$95,885	\$233,000
Conversion of noteholders' to shares of our common stock:		
Convertible Notes related accrued interest	\$805,910	\$—
Fees paid related to our private security offerings	\$90,071	\$76,500

See accompanying notes to unaudited condensed consolidated financial statements

Table Of Contents

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 \$2,194,049 for the nine-month period ended September 30, 2013, and at September 30, 2013, we had negative working capital of \$407,058, current assets of \$94,249, and an accumulated stockholders' deficit of \$74,681,872. 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 \$53,482 at September 30, 2013. We generated revenues of \$152,764 in the nine-month period ended September 30, 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 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, 2013, we had \$100,000 principal amount outstanding on a note payable (see Note 11), and \$401,307 of outstanding accounts payable. (See Note 10.)

During the nine-month period ended September 30, 2013, we received an aggregate \$893,500 net proceeds pursuant to our private securities offerings, consisting of \$633,000 from our Winter 2013 offering, \$49,500 from our Summer 2013 offering, and \$211,000 from the private securities offering conducted by our subsidiary, Clyra Medical Technologies, Inc. (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 nine-month period ended September 30, 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.

Table Of Contents

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:

	<b>December 31, 2012</b>	<b>September 30, 2013</b>
Raw materials	\$ 43,395	\$ 32,122
Finished goods (see Note 4)	10,590	3,802
Total inventory	\$ 53,985	\$ 35,924

**Equipment**

For the nine-month period ending September 30, 2012 and 2013 we recorded depreciation expense totaling \$1,958 and \$0, respectively.

**Other Assets**

Other Assets consists of payments made to purchase patents related to our efforts in commercializing the ISAN system. On October 1, 2012, we began amortizing these assets. For the nine-month period ending September 30, 2012



and 2013 we recorded amortization expense totaling \$0 and \$8,190, 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 as of the grant date using the Black Scholes calculation and are recognized as expense for the requisite service or performance period, which is the vesting period.

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.

Table Of Contents

BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

During the nine-month period ended September 30, 2012 and 2013 we recorded an aggregate \$1,382,475 and \$25,200 in selling general and administrative expense related to the issuance of options pursuant to our 2007 Equity Incentive Plan (see Note 9).

During the nine-month period ended September 30, 2012 and 2013 we recorded an aggregate \$388,432 and \$123,500 in selling general and administrative expense related to the issuance of options outside of the 2007 Plan.

**Reclassification of Expense**

Certain expenses have been reclassified from selling, general and administrative expense into research and development expenses. Management believes that this reclassification is necessary as these expenses relate to further development of the BioLargo technology into the wound care and water treatment industries and have recently become significant.

**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 nine-month period ended September 30, 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.

Table Of Contents

BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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 lost its exclusive rights to our technology in the “pet supplies industry”, and we recorded as revenue the \$100,000 deposit paid in 2011.

**Note 4. Deferred Revenue**

**Horn Warehouse**

In the past, Horn (formerly the E.T. Horn Company) has warehoused our product and made it available to us for later sales. 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 May 15, 2013, Horn no longer warehouses our product and there is no obligation for us to sell inventory held at Horn. During the nine-month period ended September 30, 2013, we recognized revenue of \$14,583 previously recorded as deferred revenue. As of September 30, 2013, we had \$0 deferred revenue relating to the sale of Odor-No-More product via Horn.

**Note 5. Private Securities Offerings**

**Summer 2013 Private Securities Offering**

Pursuant to a private offering of our common stock at a price of \$0.25 per share that commenced June 2013, through September 30, 2013, we sold 220,000 shares of our common stock to two accredited investors and received \$55,000 gross and \$49,500 net proceeds from the sales.

Each purchaser of stock will receive, for no additional consideration, a stock purchase warrant which entitles the holder to purchase a number of additional shares of our common stock equal to the number of shares originally purchased. The warrant is exercisable at \$0.30 per share, will expire on October 15, 2015, and is subject to a call provision in the event BioLargo's common stock price reaches \$0.60 per share over a period of 40 days.

**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 its expiration on June 14, 2013, we sold 2,333,329 shares of our common stock to 13 accredited investors and received \$700,000 gross and \$633,000 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 September 30, 2013, Clyra sold 215 shares of its common stock to three accredited investors and received \$215,000 gross and \$211,000 net proceeds from the sale. In April 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 per share, until July 30, 2015.

Table Of Contents

BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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.

**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.

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 June 30, 2013. On June 28, 2013, these Warrants were extended for one year to expire on June 30, 2014. The Company incurred a \$233,000 expense in the three months ended June 30, 2013 in relation to this extension. (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) 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).

Table Of Contents

BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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) 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.

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:



	<b>Number of</b>	<b>Price</b>
	Shares	Range
Outstanding as of December 31, 2011	7,280,683	0.125–2.00
Issued	8,158,449	0.40 –1.00
Exercised	—	\$ —
Expired	—	\$ —
Outstanding as of September 30, 2012	15,439,132	0.125 –4.00

	<b>Number of</b>	<b>Price</b>
	Shares	Range
Outstanding as of December 31, 2012	8,390,741	0.125–1.00
Issued	2,603,329	0.50 –1.00
Exercised	—	\$ —
Expired	(1,275,298)	0.50 –4.00
Outstanding as of September 30, 2013	9,718,772	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:

Table Of Contents

BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

	<b>2012</b>	<b>2013</b>
Risk free interest rate	.57 %	—
Expected volatility	489 %	—
Expected dividend yield	—	—
Forfeiture rate	—	—
Expected life in years	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**

During the nine-month periods ended September 30, 2012 and 2013 we recorded \$386,818 and \$0, respectively of interest expense related to the amortization of the discount on convertible notes.

**Summer 2013 Warrants**

Pursuant to the terms of our Summer 2013 Offering (see Note 5), since inception in June 2013 we issued warrants to purchase up to an aggregate 220,000 shares of our common stock to the investors in the Offering at an exercise price of \$0.30 per share. These warrants are set to expire October 15, 2015.

**Winter 2013 Warrants**

Pursuant to the terms of our Winter 2013 Offering (see Note 5), during 2013 we issued warrants -to purchase up to an aggregate 2,333,329 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 Extension**

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. The Winter 2012 warrants were set to expire on June 30, 2013 and have an exercise price of \$0.50 per share. On June 30, 2013, the expiration date of these warrants was extended by a period of one year, such that the warrants now expire on June 30, 2014. During the nine-month period ended June 30, 2013 we recorded \$233,000 of interest expense related to the fair value of the one-year extension for our Winter 2012 Warrants.

**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.

Table Of Contents

BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

**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 nine 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.

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 nine-month period ended September 30, 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 2013. The warrant expires July 23, 2017.

Table Of Contents

**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 September 30, 2013 there were no outstanding shares of our preferred stock.

***Common Stock***

As of December 31, 2012 and September 30, 2013 there were 70,713,830 and 74,475,421 shares of common stock outstanding, respectively. The increase in shares during the nine-month period ended September 30, 2013 is comprised of the following stock issuances: (i) 2,333,329 shares of our common stock issued to investors in our Winter 2013 Offering, (ii) 220,000 shares of our common stock issued to investors in our Summer 2013 Offering, (iii) 242,602 shares as payment to vendors and consultants in lieu of accrued and unpaid obligations, and (iv) 965,660 shares as payment to our officers 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, 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 nine-month period ended September 30, 2013, we recorded the issuance of an option to purchase an aggregate 40,000 shares of our common stock to our members of our Board of Directors, pursuant to the terms of the 2007 Equity Plan which calls for an annual automatic issuance. Each board member received an option to purchase 10,000 shares of our common stock, 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 \$0.28 per share, the price of our common stock on the grant date. The fair value of this option totaled \$11,200 and was recorded as selling, general and administrative expense.

During the nine-month period ended September 30, 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.

On April 27, 2009, in an effort to preserve the Company's cash and reduce outstanding payables, the Board offered to third parties, officers and board members an option ("Option") to purchase common stock in lieu of cash payment to reduce amounts owed by the Company. The Options were issued pursuant to the Company's 2007 Equity Incentive Plan with an exercise price of \$0.50 cents a share, an amount which was \$0.20 per share above the \$0.30 per share closing price of the Company's common stock on April 27, 2009, and an expiration date of April 27, 2012. The Options issued to Board members Dennis P. Calvert and Kenneth R. Code were issued at an exercise price of \$0.55 per share. In consideration of the circumstances in which the Options were issued, and the fact that the price of the Company's common stock is less than the strike price of the Options, the Board extended the expiration date of the Options by a period of seven years, to expire on April 27, 2019. The Option allowed for the purchase of 742,135 shares of our common stock and the fair value of the Option totaled \$352,739 and was recorded as selling, general and administrative expense in 2012

Table Of Contents

## BIOLARGO, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

During the nine-month period ended September 30, 2012, a portion of an option to purchase 300,000 shares of common stock issued to our Chief Financial Officer in exchange for his services pursuant to the April 2012 extension of his engagement agreement vested, resulting in \$43,201 of selling, general and administrative expense.

During the nine-month period ended September 30, 2012, a portion of the unvested options issued to consultants vested, resulting in \$71,000 of selling, general and administrative expense.

On July 5, 2012, our independent board members were issued options to purchase an aggregate 435,161 shares of our common stock at \$0.36 per share in exchange for a reduction of \$104,439 in accrued and unpaid obligations for their services on the board of directors. The share price of our common stock on July 5, 2012 was \$0.32 per share. These options are fully vested and expire ten years from the date of issuance, July 5, 2022. The fair value of the options was an aggregate \$152,585, resulting in additional \$48,146 of selling, general and administrative expense in the year ended December 31, 2012.

Activity for our stock options under the 2007 Plan for the nine-month period ended September 30, 2012 and 2013 is as follows:

	<b>Options</b>	<b>Shares</b>	<b>Price per share</b>	<b>Weighted Average Price per share</b>
As of September 30, 2012:	Outstanding	Available		
Balances as of December 31, 2011	7,739,258	4,260,742	0.25-1.89	\$ 0.45
Granted	981,828	(981,828 )	0.34-0.35	0.35
Exercised	—	—	—	—
Canceled	—	—	—	—
Balances as of September 30, 2012	8,721,086	3,278,914	0.25-1.89	\$ 0.45



	<b>Options</b>	<b>Shares</b>	<b>Price per share</b>	<b>Weighted Average Price per share</b>
As of September 30, 2013:	Outstanding	Available		
Balances as of December 31, 2012	8,521,086	4,460,742	0.23–1.89	\$ 0.44
Granted	40,000	(40,000 )	0.28	0.28
Exercised	—	—	—	—
Canceled	—	—	—	—
Balances as of September 30, 2013	8,561,086	4,420,742	0.23 –1.89	\$ 0.44

**Options issued Outside of the 2007 Equity Incentive Plan**

On September 27, 2013, in an effort to preserve our cash and reduce outstanding payables, pursuant to a plan previously adopted by our Board, we offered to employees, board members, consultants and vendors the opportunity to convert outstanding payable amounts into either (i) an option to purchase common stock in lieu of cash payment at \$0.30 cents a share, expiring ten years from the date of issuance, and containing “cashless” exercise provisions (each, an “Option”), or (ii) our common stock at \$0.30 per share.

Table Of Contents

BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

On September 30, 2013, we issued Options to purchase 1,033,825 shares of our common stock at an exercise price of \$0.30 per share to certain vendors and consultants, in lieu of \$206,765 in accrued and unpaid fees. The fair value of the Options totaled \$289,471, resulting in \$82,706 of additional selling, general and administrative expenses.

On September 30, 2013, we issued Options to purchase 675,000 share of our common stock at an exercise price of \$0.30 per share to certain non-employee members of our board of directors, in lieu of \$135,000 in accrued and unpaid fees due for services on our board of directors. The fair value of the Options totaled \$189,000, resulting in \$54,000 of additional selling, general and administrative expenses.

During the nine-month period ended September 30, 2013, a portion of the option to purchase 300,000 shares of common stock issued to our Chief Financial Officer in exchange for his services pursuant to the July 2013 extension of his engagement agreement vested, resulting in \$52,500 of selling, general and administrative expense.

During the nine-month periods ended September 30, 2012 and 2013, a portion of the option to purchase 800,000 shares of common stock issued to a consultant in exchange for his services pursuant to the August 2011 engagement agreement vested, resulting in \$57,000 of selling, general and administrative expense.

On April 27, 2009, in an effort to preserve the Company's cash and reduce outstanding payables, the Board offered to a related party an option ("Option") to purchase 691,975 shares of our common stock in lieu of cash payment to reduce amounts owed by the Company. The Option was issued to New Millennium, Inc. a Company controlled by Dennis P. Calvert were issued at an exercise price of \$0.55 per share. In consideration of the circumstances in which the Options were issued, and the fact that the price of the Company's common stock was less than the strike price of the Options. On April 27, 2012 the Board extended the expiration date of the Options by a period of seven years, to expire on April 27, 2019. The fair value of the Option totaled \$228,352 and was recorded as selling, general and administrative expense.

Activity of our stock options issued outside of the 2007 Plan for the nine-month period ended September 30, 2012 and 2013 is as follows:

As of September 30, 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	691,975	.30		.30
Exercised	—	—		—
Canceled	—	—		—
Balances as of September 30, 2012	12,363,459	0.25– 1.89	\$	0.43

As of September 30, 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	2,008,825	.30		.30
Exercised	—	—		—
Canceled	—	—		—
Balances as of September 30, 2013	15,347,045	0.18– 1.00	\$	0.36

Table Of Contents

## BIOLARGO, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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:

	2012	2013	
	<b>2007 Non- Plan</b>	<b>Non Plan</b>	<b>2007 Plan</b>
Risk free interest rate	— 1.45 %	2.64 — 2.66 %	2.19 %
Expected volatility	— 951 %	928 %	928 %
Expected dividend yield	—	—	—
Forfeiture rate	—	—	—
Expected life in years	— 7	7	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.

**Note 10. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses included the following:

	<b>December 31,</b>	<b>September 30,</b>
	2012	2013
Accounts payable and accrued expenses	\$ 334,699	\$ 392,727
Accrued interest	—	7,556
Officer and board of director payables	4,673	1,024
Total accounts payable and accrued expenses	\$ 339,372	\$ 401,307

**Payment of Officer Fees**

On September 27, 2013, in an effort to preserve our cash and reduce outstanding payables, pursuant to a plan previously adopted by our Board, we offered to employees, board members, consultants and vendors the opportunity to convert outstanding payable amounts into either (i) an option to purchase common stock in lieu of cash payment at \$0.30 cents a share, expiring ten years from the date of issuance, and containing “cashless” exercise provisions (each, an “Option”), or (ii) our common stock at \$0.30 per share.

On September 30, 2013, we issued 965,660 shares of our common stock, at a conversion price of \$0.30, to three of our executive officers, in lieu of \$289,698 in accrued and unpaid salary and unreimbursed expenses. The stock issued to the executive officers is restricted from sale until the earlier of the termination of the executive’s employment, or the filing of a report of a “change in control” on Form 8-K.

Table Of Contents

BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

*Payment of Consultant Fees*

On September 27, 2013, we issued 135,826 shares of our common stock, at a conversion price of \$0.2735 per share, to certain vendors and consultants, in lieu of \$37,091 in accrued and unpaid amounts.

On May 15, 2013, we issued an aggregate 11,112 shares of our common stock, at a conversion price of \$0.28, as payment for \$3,111 of selling, general and administrative expense.

On May 15, 2013, we issued an aggregate 53,572 shares of our common stock, at a conversion price of \$0.28, as payment for \$15,000, of which \$11,425 is recorded as selling, general and administrative expense and the remaining \$3,575 as prepaid rent.

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 September 5, 2012 we issued 15,761 shares of our common stock at a conversion price of \$0.31 per share, and recorded \$4,693 of selling, general and administrative expense to a consultant in exchange for research and marketing services.

On July 1, 2012, we issued 80,000 shares of our common stock at a conversion price of \$0.35 per share, and recorded \$28,000 of selling, general and administrative expense to a consultant in exchange for research and marketing services.

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.

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.

### **Accrued Interest**

During the nine-month period ended September 30, 2012 and 2013, we recorded \$67,491 and \$7,556 of interest expense, respectively, on a note payable (see Note 11), and the Spring 2009 and Spring 2010 Notes. We also recorded \$233,000 of interest expense related to the fair valuation of the warrants that were extended from the Winter 2012 offering (See Note 7).

On April 15, 2012, in accordance with terms of the Spring 2010 Notes (see Note 5), we paid accrued interest of \$41,425 by the issuance of 125,539 shares of our common stock, at a conversion price of \$0.33 per share, to the holders of the Spring 2005 Notes.

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. Note 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.

Table Of Contents

BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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.)

For the nine-month period ended September 30, 2012 and 2013, we recorded interest expense of \$7,611 and \$7,556, 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.

Clyra has also raised \$211,000 in net proceeds through issuing 215 shares of its common stock during the nine months ended September 30, 2013 (see Note 5, “Private Securities Offerings”). This represents 19.6% of the Company.

For the nine-month period ended September 30, 2013, there have been no revenues and the financial impact of Clyra’s operations resulted in a net loss of \$311,457.



**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.

**Note Payable**

On October 28, 2013, an individual loaned the Company \$75,000, pursuant to a promissory note bearing interest at a rate of 10%, and due and payable in full October 28, 2014.

Table Of Contents

**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 September 30, 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, Odor-No-More, Inc., a California corporation, BioLargo Water, Inc., a California corporation, and its partially-owned subsidiary Clyra Medical Technologies, Inc., a California corporation.

## Table Of Contents

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, and in consideration of our limited financial resources, which necessarily require us to make difficult strategic choices and delay progress on our commercial activities.

### **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 - direct to consumers, through retail stores, and most recently, to the US Government.

We engaged a leading third party testing company to compare our pet products’ performance against leading brands and, much like we were able to prove in with our equine products, the testing verified that we outperform the leading brands in odor control in side-by-side consumer testing. Cat Fancy Magazine named our "Litter Deodorizing Concentrate" one of 18 "Best Products of the Year" for 2013, and it won an "Editor's Choice Award" from Pet Product News International.

Table Of Contents

In April 2013, we added our pet line of products under our “Deodorall” brand, with the intent to distribute our pet products under the Deodorall brand through mass-merchant (non-pet) retailers. We have retained sales representative agencies that specialize in various aspects of the retail market, including pet and mass merchant, to have our products placed at national retailers. We have test marketed a series of label designs and package refinements, and are targeting national and regional retailers to carry our products and/or develop a private label product using our patented formulas.

Were any national or regional chain to carry our products, we anticipate a need for increased investment capital to conduct an appropriate marketing campaign, and to reinvest most of the margin available from early sales into marketing and merchandising, to support the sell through of the products. While we have had discussions with a number of capital sources and believe that we would be able to successfully secure the needed capital to support such a campaign, until such time as the specifics requirements are well defined and related negotiations are complete, we can make no assurances that we will be successful in such financing activities.

In October 2013, we introduced a new line of odor and moisture control products to the US Government in a pouch and canister design that can be used to solidify liquids or absorb blood and other bodily fluids. We initially plan to target government medical providers, and plan to expand into general industrial applications and first responders markets.

A third party distributor markets “Deodorall Sport” to the sporting goods apparel and equipment industry with an emphasis in the ice hockey industry. We are actively developing new complimentary products and refining our existing products to support this selling channel. Our products are being introduced and sold into retail stores in time for the fall and winter sports seasons.

As of yet, our sales in the CHAPP product category are nominal. Product development, sales, and marketing require significant financial resources that we currently do not have. As such, our progress in this area has been slower than we had hoped. As our financial resources permit, we will continue to evaluate and test new products, marketing programs and selling opportunities, as well as strategic alliances to expand and refine our messaging and generate sales.

***Agreement with Central Garden & Pet***

On March 24, 2011, we granted Central Garden & Pet the exclusive worldwide right and license to sell products that contain our technologies in the “pet supplies industry” pursuant to a written agreement. The rights granted to Central are exclusive so long as Central purchased a minimum amount of product from us by February 11, 2013. Central failed to

do so, and had 60 days from our February 11, 2013 notice to them of such failure to purchase the minimum amount of product or provide us equivalent compensation in order to maintain exclusive rights to our technology in the “pet supplies industry”. Central failed to do so, and thus no longer has exclusive rights to our technology in the “pet supplies industry”. The \$100,000 deposit paid to us by Central in 2011 is non-refundable and will not be returned to Central.

### **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 conclude development and testing, and apply for 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, Clyra has retained and engaged a team of experts in the area to guide it through the process and is not aware of any inherent technical or practical reason that its products would not receive the approvals sought. The product development process has been more time consuming than originally anticipated, and our limited financial resources have impacted our ability to complete the process. 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 second half 2014. In the interim, we will continue to seek licensing partners, and refine our product roll out, marketing, and distribution plans.

### **Water Treatment**

We have developed a number of technologies for water treatment we call the Advanced Oxidation System (“AOS”). Our AOS systems directly allow for the removal and in-situ destruction of many dangerous, yet common waterborne contaminants and we believe can solve some of the world’s most important problems that threaten our water. Within the menu of systems offer what we call our “AOS Filter.” We believe our AOS Filter, a product in development, is a significant breakthrough in water filtration technology in that it eliminates difficult and environmentally sensitive contaminants in minutes, compared with existing filter technologies that take hours or longer.

Table Of Contents

In June 2013, we formed BioLargo Water Inc. ([www.BioLargoWater.com](http://www.BioLargoWater.com)) a wholly-owned subsidiary, to showcase our AOS systems and organize and refine our commercial strategy. While a number of our delivery systems may have a role to play in water treatment in general, we believe our AOS Filter will prove to be the showcase of our business over time and we believe it offers a host of advantages as compared to competing technologies like settling ponds, adsorption technologies, and other advanced oxidation systems such as UV and ozone.

We have developed a lab-scale prototype design of our AOS Filter, filed for patents, and gathered our initial proof of claims. We are further engineering and testing the filter against a number of contaminants, and are positioning it and actively seeking partners for commercial trials and pilot programs. We believe our AOS Filter can enhance any water treatment system already in use in almost any industry that values speed of processing and/or hard to deal with contaminants.

We are currently evaluating the most practical way and appropriate market to exploit our AOS Filter. As part of that process, we intend to find further industry resources to assist in the endeavor, and have begun discussions with potential strategic partners. Revenue opportunities present themselves in many forms: licensing, sale, manufacturing, servicing, joint venture, leasing, tolling, etc. However, we have not yet identified the specific industry segment or revenue opportunity for our first commercial trials.

Many industry segments, like energy and industrial process water systems, use extremely high volumes of water in their daily business activity. Often, tiny organic molecules, including soluble contaminants, are problematic for these types of water uses. Some contaminants are especially troublesome for existing technologies such that significant time must be expended to fully treat the contaminant. We also know that many industry segments require ultra-pure water. With our AOS Filter, we have been able to prove a level of performance in which our system dismantles organic contaminants to their basic molecular forms in minutes, rendering them safe. Other systems can take years, as in the case of settling ponds, or hours for other advanced oxidation technologies like UV and ozone. As such, we believe the speed in which our AOS Filter operates provides a significant advantage to a potential customer. We also believe our AOS Filter can facilitate continuous and scalable water treatment with maximum efficiency, is complimentary with many filter systems, and can extend the life of filtration systems, lower corrosion and conserve chemistry.

Our work as a founding member of the University of Alberta Research Chair to solve the contaminated water issues associated with the Canadian Oil Sands production is continuing. We believe our AOS Filter will likely play an important role in that area as the industry seeks to comply with regulated mandates to deal with the reclamation and ongoing water uses. Our work with the stakeholders involved in the research chair is focused on optimization and tailoring the system to deal with the unique requirements of this industry segment. As the work progresses and additional proof of claims are gathered, the next logical step would be to begin pilot testing for commercial scale uses of the system.



**Intellectual Property**

In supplement to the description of our patents in our Annual Report on Form 10-K, we are now able to disclose the following patent applications with the United States Patent and Trademark Office:

US Patent Application 61/490,448 (filed May 26, 2011) relating to our “AOS Filter”, titled “Activated Carbon associated with Alkaline or Alkali Iodide”, in which a contaminated fluid stream is passed through an activated carbon filter.

US Patent Application 13/308,105 (filed November 30, 2011) relating to our “AOS Filter”, titled “Antimicrobial and Antiodor Solutions and Delivery Systems” relating to our liquid antimicrobial solutions, including our gels, sprays and liquids imbedded into wipes and other substrates.

Table Of Contents

Applications for international protection pursuant to the Patent Cooperation Treaty (PCT) have been filed for both of these US applications. However, it is cost prohibitive to seek patent protection all countries that are party to the PCT, and thus we intend to choose a limited number of countries to seek patent protection, as funds are available to do so. See the Risk Factors set forth in our Annual Report, beginning on page 13.

**Results of Operations—Comparison of the three- and nine-month periods ended September 30, 2013 and 2012.**

**Revenue**

We generated \$18,418 and \$152,764 in revenues during the three and nine-month periods ended September 30, 2013, and \$10,490 and \$55,145 in revenues during the three and nine-month periods ended September 30, 2012. In the three-month period ended June 30, 2013 we recorded \$100,000 in license revenue from the deposit related to the Central Garden transaction. (See Note 3.) Our product revenue in the three and nine-month periods ended September 30, 2013, consisted primarily of sales of our Deodorall branded sports equipment spray, and Odor-No-More branded products. The revenue for the three and nine-month periods ended September 30, 2012, consisted primarily of sales of our Odor-No-More branded products.

**Cost of Goods Sold**

Excluding the \$100,000 of license revenue, our cost of goods sold was \$8,381 or 46% and \$23,563 or 45% of revenues for the three and nine-month periods ended September 30, 2013, as compared with \$6,857 or 65% and \$32,706, or 59% of revenues for the three and nine-month periods ended September 30, 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 \$536,026 and \$1,470,936 for the three and nine-month periods ended September 30, 2013, compared to \$760,584 and \$2,871,648 for the three and nine-month periods ended September 30, 2012, a decrease of \$224,558 and \$1,400,712. The decrease in 2013 is primarily attributable to the non-cash expense recorded in 2012 as a result of the fair value of the April 2012 extension of stock options originally

issued as three-year options in April 2009. The largest components of our Selling, General and Administrative expenses were:

a. Salaries and Payroll-related Expenses: These expenses were \$140,217 and \$401,457 for the three and nine-month periods ended September 30, 2013, compared to \$151,520 and \$854,256 for the three and nine-month periods ended September 30, 2012, a decrease of \$11,303 and \$452,799. The decrease in 2013 is related to the absence of the non-cash expense recorded in 2012 for the extension of certain stock options.

b. Consulting Expenses: These expenses were \$72,167 and \$255,383 for the three and nine-month periods ended September 30, 2013, compared to \$319,607 and \$892,110 for the three and nine-month periods ended September 30, 2012, a decrease of \$247,440 and \$636,727. As noted above, the decrease is primarily attributable to the non-cash expense associated with the 2012 extension of certain stock options.

c. Professional Fees: These expenses were \$170,156 and \$332,072 for the three and nine-month periods ended September 30, 2013, compared to \$74,464 and \$349,187 for the three and nine-month periods ended September 30, 2012, an increase of \$95,962 and a decrease of \$17,115. The increase in the three-month period is due to the additional fair value related to the options issued in lieu of accrued and unpaid obligations.

Table Of Contents

***Research and Development***

Research and development expenses were \$267,861 and \$603,568 for the three and nine-month periods ended September 30, 2013, compared to \$122,268 and \$307,754 for the three and nine-month periods ended September 30, 2012, an increase of \$145,593 and \$295,815, respectively. The increase in R&D is largely due to the expansion of our technology into the wound care and water treatment industries.

***Interest expense***

Interest expense totaled \$238,056 and \$240,556 for the three and nine-month periods ended September 30, 2013, compared to \$36,137 and \$454,074 for the three- and nine-month periods ended September 30, 2012, an increase of \$201,919 and a decrease of \$213,518. The increase in the three-month period is the result of the fair value of the winter 2012 Warrant one-year extension of \$233,000. The decrease in the nine month period is a result of the winter 2012 warrant extension, offset by a 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 and nine-month periods ended September 30, 2013 was \$799,108 and \$2,194,049, a loss of \$0.01 and \$0.03 per share, compared to a net loss for the three and nine-month periods ended September 30, 2012 of \$915,668 and \$3,612,994, a loss of \$0.01 and \$0.06 per share. The decrease in net loss for the three and nine-month period ended September 30, 2013 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 officers and 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 \$53,482 at September 30, 2013. We had negative working capital of \$407,058 as of September 30, 2013, compared with negative working capital of \$341,589 as of December 31, 2012. We had negative cash flow from operating activities of \$991,207 for the nine-month period ended September 30, 2013, compared to a negative cash flow from operating

activities of \$1,662,101 for the nine-month period ended September 30, 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 \$2,194,049 for the nine-month period ended September 30, 2013, and an accumulated stockholders' deficit of \$74,681,872 as of September 30, 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 September 30, 2013, we had \$100,000 principal amount outstanding on a note payable (see Note 11), and \$401,307 of outstanding accounts payable. (See Note 10.)

During the nine-month period ended September 30, 2013, we received an aggregate \$893,500 net proceeds pursuant to our private securities offerings, consisting of \$633,000 from our Winter 2013 private securities offering, \$49,500 from our Summer 2013 private securities offering, and \$211,000 from the private securities offering conducted by our subsidiary, Clyra Medical Technologies, Inc. (See Note 5.)

Table Of Contents

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.

We have been, and may continue to be, required to financially support the operations of our subsidiaries, none of which are operating at a positive cash flow. For example, during the nine-month period ended September 30, 2013, while our subsidiary Clyra raised net proceeds of \$215,000 in its private securities offering, it expended \$311,457, resulting in a shortfall of approximately \$100,000. Through intercompany loans, we funded the shortfall.

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 would 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.

Table Of Contents

**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.

Table Of Contents

**PART II**

**OTHER INFORMATION**

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

**Summer 2013 Private Securities Offering**

Pursuant to a private offering of our common stock at a price of \$0.25 per share that commenced June 2013, through September 30, 2013, we sold 220,000 shares of our common stock to two accredited investors and received \$55,000 gross and \$49,500 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 \$0.30 per share until October 15, 2015.

**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 its expiration on June 14, 2013, we sold 2,333,329 shares of our common stock to 13 accredited investors and received \$700,000 gross and \$633,000 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 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 September 30, 2013, Clyra sold 215 shares of its common stock to two accredited investors and received \$215,000 gross and \$211,000 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 \$0.55 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 Officer Fees**

On September 30, 2013, we issued 965,660 shares of our common stock, at a conversion price of \$0.30, to three of our executive officers, in lieu of \$289,698 in accrued and unpaid salary and unreimbursed expenses. The stock issued to the executive officers is restricted from sale until the earlier of the termination of the executive's employment, or the filing of a report of a "change in control" on Form 8-K.

**Payment of Consultant Fees**

On September 27, 2013, we issued 135,826 shares of our common stock, at a conversion price of \$0.2735 per share, to certain vendors and consultants, in lieu of \$37,091 in accrued and unpaid amounts.

On May 15, 2013, we issued an aggregate 11,112 shares of our common stock, at a conversion price of \$0.28, as payment for \$3,111 of selling, general and administrative expense.

On May 15, 2013, we issued an aggregate 53,572 shares of our common stock, at a conversion price of \$0.28, as payment for \$15,000.

Table Of Contents

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 Exhibits**  
**6.**

The exhibits listed below are attached hereto:

**Exhibit No. Description of Exhibit**

4.1*	Promissory Note in the face amount of \$75,000 dated October 28, 2013.
10.01†	Engagement Extension Agreement dated as of July 17, 2013 between BioLargo, Inc. and Charles K. Dargan, II. (1)
Exhibit 31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13(a)-14 and 15(d)-14 under the Securities Exchange Act of 1934
Exhibit 31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13(a)-14 and 15(d)-14 under the Securities Exchange Act of 1934
Exhibit 32*	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.
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

† Management contract or compensatory plan, contract or arrangement

\* Filed herewith

\*\* Furnished herewith

(1) Incorporated herein by reference from the Form 8-K filed by the Company on July 18, 2013.

Table Of Contents

**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 13, 2013 By: /s/ DENNIS P. CALVERT  
Dennis P. Calvert  
Chief Executive Officer

Date: November 13, 2013 By: /s/ CHARLES K. DARGAN, II  
CHARLES K. DARGAN, II  
Chief Financial Officer

Table Of Contents

**EXHIBIT INDEX**

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