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BIOLARGO, INC.
Form 10-Q
May 15, 2012
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012.

or

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

For the transition period from _____ to _____
Commission File Number 000-19709

BIOLARGO, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

65-0159115
(I.R.S. Employer
Identification No.)

16150 Heron Avenue
La Mirada, California 90638
(Address, including zip code, of principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 or a non-accelerated filer.

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See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

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

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 May 11, 2012 was 62,794,649 shares.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

BIOLARGO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2011 AND MARCH 31, 2012

| | December 31, 2011 | March 31, 2012 (unaudited) |
|--|----------------------|----------------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$128,498 | \$310,592 |
| Accounts receivable, net of allowance | 10,476 | 17,755 |
| Inventory | 61,865 | 63,307 |
| Prepaid expenses | 1,346 | — |
| Total current assets | 202,185 | 391,654 |
| FIXED ASSETS | | |
| Equipment, net | 2,700 | 1,365 |
| OTHER ASSETS | | |
| Deposit | 41,502 | 54,647 |
| TOTAL ASSETS | \$246,387 | \$447,666 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$706,688 | \$991,572 |
| Convertible notes payable, current portion | 670,410 | 670,410 |
| Discount on convertible notes, current portion net of amortization | (255,914) | (81,479) |
| Note payable | 100,000 | 100,000 |
| Deferred revenue | 52,509 | 36,658 |
| Customer deposit | 100,000 | 100,000 |
| Total Current Liabilities | 1,373,693 | 1,817,161 |
| LONG-TERM LIABILITIES | | |
| Convertible notes payable, net of current portion | 438,775 | 413,775 |
| Discount on convertible notes, net of current portion and amortization | (48,484) | (36,811) |
| Total Long-term Liabilities | 390,291 | 376,964 |

| | | |
|---|---------------|---------------|
| TOTAL LIABILITIES | 1,763,984 | 2,194,125 |
| COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS (Note 12) | | |
| STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Convertible Preferred Series A, \$.00067 Par Value, 50,000,000 Shares Authorized, -0- Shares Issued and Outstanding, at December 31, 2011 and March 31, 2012. | — | — |
| Common Stock, \$.00067 Par Value, 200,000,000 Shares Authorized, 59,242,220 and 61,022,519 Shares Issued, at December 31, 2011 and March 31, 2012. | 39,737 | 40,939 |
| Additional Paid-In Capital | 65,907,960 | 66,598,867 |
| Accumulated Deficit | (67,465,294) | (68,386,265) |
| Total Stockholders' Equity (Deficit) | (1,517,597) | (1,746,459) |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | \$246,387 | \$447,666 |

See accompanying notes to unaudited condensed consolidated financial statements

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BIOLARGO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2011 AND 2012
(Unaudited)

| | For the three-month periods ended March 31, | |
|---|--|--------------|
| | 2011 | 2012 |
| Revenue | | |
| Product | \$ 6,433 | \$ 30,816 |
| License fee | 3,085 | — |
| Total revenue | 9,518 | 30,816 |
| Cost of goods sold | 19,663 | 17,772 |
| Gross (Loss) Margin | (10,145) | 13,044 |
| Costs and expenses | | |
| Selling, general and administrative | 1,153,485 | 700,438 |
| Research and development | 27,188 | 16,311 |
| Amortization and depreciation | 2,495 | 1,335 |
| Total costs and expenses | 1,183,168 | 718,084 |
| Loss from operations | (1,193,313) | (705,040) |
| Interest expense | (246,936) | (215,931) |
| Net other expense | (246,936) | (215,931) |
| Net loss | \$ (1,440,249) | \$ (920,971) |
| Loss per common share – basic and diluted | | |
| Loss per share | \$ (0.03) | \$ (0.02) |
| Weighted average common share equivalents outstanding | 52,642,802 | 59,834,382 |

See accompanying notes to unaudited condensed consolidated financial statements

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BIOLARGO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
 FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2012
 (Unaudited)

| | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Total |
|---|---------------------|--------------------|----------------------------------|------------------------|---------------|
| | Number of Shares | Par Value \$.00067 | | | |
| BALANCE DECEMBER 31, 2011 | 59,242,220 | \$ 39,737 | \$65,907,960 | \$(67,465,294) | \$(1,517,597) |
| Issuance of stock for cash received in Winter 2012 PPM | 1,327,150 | 896 | 463,604 | — | 464,500 |
| Issuance of stock for cash received in Fall 2011 PPM | 275,985 | 187 | 96,407 | — | 96,594 |
| Issuance of stock for services to consultants and rent | 130,147 | 87 | 44,138 | — | 44,225 |
| Conversion of a 2010 Spring Note and accrued interest obligations | 47,017 | 32 | 27,002 | — | 27,034 |
| Issuance of stock options to consultants | — | — | 49,289 | — | 49,289 |
| Issuance of stock options to officer and Board of Directors | — | — | 10,467 | — | 10,467 |
| Net loss for the three-month period ended March 31, 2012 | — | — | — | (920,971) | (920,971) |
| BALANCE MARCH 31, 2012 | 61,022,519 | \$ 40,939 | \$66,598,867 | \$(68,386,265) | \$(1,746,459) |

See accompanying notes to unaudited condensed consolidated financial statements

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BIOLARGO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2011 AND 2012
(unaudited)

| | For the three-month periods ended March 31, | |
|--|--|--------------|
| | 2011 | 2012 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Loss | \$(1,440,249) | \$(920,971) |
| 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 | 182,953 | 186,108 |
| Non-cash expense related to options issued to officers and board of directors | 104,888 | 10,467 |
| Non-cash expense related to stock issued to our board of directors for settlement of obligations | 163,998 | — |
| Non-cash expense related to options issued to consultants | 244,752 | 49,289 |
| Non-cash expense related to stock issued to consultants | 31,700 | 44,225 |
| Amortization and depreciation expense | 2,495 | 1,335 |
| Increase (decrease) in cash from change in: | | |
| Accounts receivable | 6,857 | (7,279) |
| Inventory | (13,625) | (1,442) |
| Prepaid expenses | — | 1,346 |
| Other assets | — | (13,145) |
| Accounts payable and accrued expenses | 196,598 | 286,918 |
| Deferred revenue | (3,085) | (15,851) |
| Customer deposits | 82,500 | — |
| Net Cash Used In Operating Activities | (419,350) | (379,000) |
| CASH FLOWS FROM INVESTING ACTIVITIES | — | — |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from the sale of stock | 657,520 | 561,094 |
| Proceeds from convertible notes | — | — |
| Payments on note payable | (20,000) | — |
| Net Cash Provided By Financing Activities | 637,520 | 561,094 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 214,429 | 182,094 |
| CASH AND CASH EQUIVALENTS — BEGINNING | 425,069 | 128,498 |
| CASH AND CASH EQUIVALENTS — ENDING | \$639,498 | \$310,592 |
| SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION | | |
| Cash Paid During the Period for: | | |
| Interest | \$— | \$— |

| | | |
|-------|-----|-----|
| Taxes | \$— | \$— |
|-------|-----|-----|

SUPPLEMENTAL DISCLOSURES OF NON-CASH OPERATING ACTIVITIES:

Conversion of accrued expenses to shares of the Company's common stock:

| | | |
|--|----------|-----|
| Board of Directors and officer obligations | \$78,000 | — |
| Consultant obligations | \$— | \$— |

Option or warrant issued to purchase shares of the Company's common stock:

| | | |
|--|----------|----------|
| Consultant obligations | \$26,205 | \$44,225 |
| Board of Directors and officer obligations | \$45,775 | \$10,467 |

SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING AND INVESTING ACTIVITIES:

Conversion of Noteholders to shares of the Company's Common stock:

| | | |
|--|-----------|----------|
| Conversion of a 2010 Spring Note and related accrued interest obligation | \$— | \$27,034 |
| Conversion of the 2008 Spring Notes and related accrued interest | \$989,676 | \$— |

See accompanying notes to unaudited condensed consolidated financial statements

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

Note 1. Business and Organization

Outlook

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of our business. As reflected in the accompanying financial statements, we had a net loss of \$920,971 for the three-month period ended March 31, 2012, and at March 31, 2012, we had negative working capital of \$1,425,507, current assets of \$391,654, and an accumulated stockholders' deficit of \$68,386,265. The foregoing factors raise substantial doubt about our ability to continue as a going concern. Ultimately, our ability to continue as a going concern is dependent upon our ability to attract significant new sources of capital, attain a reasonable threshold of operating efficiencies and achieve profitable operations by licensing or otherwise commercializing products incorporating our BioLargo technology. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

We have been, and anticipate that we will continue to be, limited in terms of our capital resources. Our total cash and cash equivalents were \$310,592 at March 31, 2012. We generated revenues of \$30,816 in the three-month period ended March 31, 2012, which amount was not sufficient to fund our operations. We generally have not had enough cash or sources of capital to pay our accounts payable and expenses as they arise, and have relied on the issuance of stock options and common stock, as well as extended payment terms with our vendors, to continue to operate. We will be required to raise substantial additional capital to expand our operations, including without limitation, hiring additional personnel, additional scientific and third-party testing, costs associated with obtaining regulatory approvals and filing additional patent applications to protect our intellectual property, and possible strategic acquisitions or alliances, as well as to meet our liabilities as they become due for the next 12 months.

As of March 31, 2012, we had \$1,184,185 aggregate principal amount outstanding on various promissory notes. We may pay the principal and interest due on these notes in cash or in stock, at our option, at maturity. In addition, as of March 31, 2012, we had \$991,572 of outstanding accounts payable and accrued expenses, of which \$114,193 relates to interest due on outstanding promissory notes, and \$877,379 relates to accrued and unpaid payables. (See Note 10.)

During the three-month period ended March 31, 2012, we received \$561,094 pursuant to our private securities offerings. (See Note 5.)

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

The unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to Rule 8-03 of Regulation S-X under the Securities Act of 1933, as amended. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for annual financial

statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. We are still operating in the early stages of the sales and distribution process, and therefore our operating results for the three-month period ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ended December 31, 2012, 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, 2011 filed with the Securities and Exchange Commission (the "SEC").

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

Note 2. Summary of Significant Accounting Policies

Inventory

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

| | December 31, 2011 | March 31, 2012 |
|-----------------------------|----------------------|-------------------|
| Raw materials | \$27,556 | \$38,102 |
| Finished goods (see Note 4) | 34,309 | 25,205 |
| Total inventory | \$61,865 | \$63,307 |

Equipment

Equipment is carried at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which is three years. Equipment is stated on the balance sheet net of accumulated depreciation of \$29,728 and \$31,063 as of December 31, 2011 and March 31, 2012, respectively. Depreciation expense for the three-month periods ended March 31, 2011 and 2012 was \$2,495 and \$1,335, respectively.

Other Assets - Deposit

“Other Assets – Deposit” consists of payments made to secure the Ioteg IP patents rights to continue our efforts in commercializing the ISAN system.

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.

Stock Options and Warrants issued for Services

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

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

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.

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

Revenue Recognition

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

Earnings (Loss) Per Share

We report basic and diluted earnings (loss) per share (“EPS”) for common and common share equivalents. Basic EPS is computed by dividing reported earnings by the weighted average shares outstanding. Diluted EPS is computed by adding to the weighted average shares the dilutive effect if stock options and warrants were exercised into common stock. For the three-month periods ended March 31, 2011 and 2012, 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

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). The agreement provided that we are the exclusive provider of the product containing the BioLargo technologies, other than in certain limited conditions. The rights granted to Central are exclusive so long as Central meets “minimum purchase requirements” of product from the Company, as set forth in the agreement. The agreement terminates only upon uncured breach of material warranty or obligation.

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

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

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

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

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

Note 4. Deferred Revenue

Horn Warehouse

Our distribution partner, Horn (formerly the E.T. Horn Company), warehouses our product and makes it available to us for later sales, and thus for revenue recognition purposes, the sale to Horn is deferred until such time as the product is sold to retailers and/or end-users. As of March 31, 2012, a balance of \$36,658 relating to the sale of Odor-No-More product to Horn remains as deferred revenue.

Note 5. Private Securities Offerings

Winter 2012 Offering

Pursuant to a private offering of our common stock at a price of \$0.35 per share that commenced January 2012 (the “Winter 2012 Offering”), through March 31, 2012, we sold 1,327,150 shares of our common stock at \$0.35 per share from 15 accredited investors and received \$464,500 gross and \$440,500 net proceeds from the sales.

Each purchaser of stock in the Winter 2012 Offering will receive, for no additional consideration, a stock purchase warrant (the “Winter 2012 Warrant”) entitling the holder to purchase the same number of shares as purchased in the offering, for \$0.50 per share until January 31, 2013.

Fall 2011 Offering

Pursuant to a private offering of our common stock at a price of \$0.35 per share that commenced September 2011 (the “Fall 2011 Offering”) and closed December 2011, through the three-month period ended March 31, 2012, we received \$96,594 gross proceeds from subscriptions committed prior to the termination of the offering, and issued 275,896 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. (See Note 7.)

Winter 2011 Offering

Pursuant to a private offering of our common stock at a price of \$0.35 per share that commenced January 2011 and terminated June 2011 (the “Winter 2011 Offering”) we sold 2,765,070 shares of our common stock at \$0.35 per share and received \$967,768 gross proceeds from the sales.

Summer 2010 Offering

Pursuant to a private offering of our common stock at a price of \$0.30 per share, that commenced July 2010 (the “Summer 2010 Offering”) and closed December 2010, we sold 3,775,012 shares of our common stock at \$0.30 per share and received \$1,132,500 gross proceeds from the sales.

Spring 2010 Offering

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

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

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BIOLARGO, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Spring 2009 Offering

Pursuant to a private offering that commenced April 2009 (the “Spring 2009 Offering”) and terminated November 2009, we sold \$681,410 of our 10% convertible notes (the “Spring 2009 Notes”), which are due and payable on June 1, 2012, to 23 investors, the principal amount of which is convertible into an aggregate 1,238,935 shares of our common stock at a price of \$0.55 per share. The Spring 2009 Notes can be converted voluntarily by the noteholders at any time prior to the maturity date. We can unilaterally convert the Spring 2009 Notes (i) on or after December 15, 2009, if we have received one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least \$3 million gross proceeds of equity or debt; or (ii) on the maturity date. Accordingly, the Spring 2009 Notes may be repaid in cash or may be converted, at our sole option, into shares of our common stock, on or before the June 1, 2012 maturity date.

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

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

Note 6. Conversion of Notes

Spring 2010 Notes

On February 6, 2012, a holder of a promissory note issued in our Spring 2010 Offering (see Note 5) elected to convert the principal balance of \$25,000, and accrued unpaid interest of \$2,034, into an aggregate 47,017 shares of our common stock, at a conversion price of \$0.575.

Note 7. Warrants

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

| | Number of Shares | Price Range |
|-------------------------------------|---------------------|-----------------|
| Outstanding as of December 31, 2010 | 6,894,215 | \$ 0.125 – 2.00 |
| Issued | | —\$ — |
| Exercised | | —\$ — |
| Expired | (1,640,695) | \$ 0.125 – 2.00 |
| Outstanding as of March 31, 2011 | 5,253,520 | \$ 0.50 – 1.00 |

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

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

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:

| | 2011 | 2012 |
|-------------------------|-------------|--------------|
| Risk free interest rate | .24-1.38% | 0.22 – 1.87% |
| Expected volatility | 400 – 765% | 150 – 558% |
| Expected dividend yield | — | — |
| Forfeiture rate | — | — |
| Expected life in years | 1.00 – 3.00 | 0.50 – 3.00 |

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

Warrants issued as part of our Convertible Notes

We recorded \$182,953 and \$186,108 of interest expense related to the amortization of the discount on convertible notes for the three-month periods ended March 31, 2011 and 2012, respectively.

Winter 2012 Warrants

Pursuant to the terms of our Winter 2012 Offering (see Note 5), during the three-month period ended March 31, 2012, we issued warrants to purchase up to an aggregate 1,603,993 shares of our common stock to the investors in the Offering. These warrants are set to expire on January 31, 2013 and have an exercise price of \$0.50 per share.

Fall 2011 Warrants

From the inception of our Fall 2011 Offering in September 2011 through March 31, 2012, we issued warrants to purchase up to an aggregate 1,059,215 shares of our common stock to the purchaser of stock in our Fall 2011 Offering. These warrants are set to expire on December 31, 2012 and have an exercise price of \$0.50 per share.

Spring 2010 Warrants

From the inception of our Spring 2010 Offering on January 15, 2010, through its termination in July 2010, we issued warrants to purchase up to an aggregate 1,527,842 shares of our common stock to purchasers of our Spring 2010 Notes, consisting of Spring 2010 Eighteen Month Warrants to purchase up to an aggregate 763,235 shares which 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.

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Spring 2010 Warrant Extension

On July 15, 2011, the expiration date of the Spring 2010 Eighteen Month Warrant was extended six months from July 15, 2011 to January 15, 2012. The fair value of the extension was an aggregate \$57,089 and will be expensed ratably through the expiration period of January 15, 2012. These warrants expired January 15, 2012, unexercised, and were previously reflected in the net outstanding warrants as of December 31, 2011.

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 expired unexercised December 1, 2010, at an exercise price of \$0.75 per share, and Spring 2009 Three-Year Warrants to purchase up to an aggregate 1,238,935 shares which expire June 1, 2012, at an exercise price of \$1.00 per share.

Fall 2008 Warrants

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

On September 28, 2011, we extended the expiration date of the Fall 2008 Three-year Warrant by one year from October 15, 2011 to October 15, 2012 resulting in a fair value of \$180,172. Of this amount, \$30,029 was expensed during 2011 and the remaining \$150,143 was recorded as interest expense during the three-month period ended March 31, 2012.

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, 2011 and March 31, 2012 there were no outstanding shares of our preferred stock.

Common Stock

As of December 31, 2011 and March 31, 2012 there were 59,242,220 and 61,022,520 shares of common stock outstanding, respectively. The increase in shares during the three-month period ended March 31, 2012 is comprised of the following stock issuances: (i) 1,327,150 shares of our common stock issued to investors in our Winter 2012 Offering, (ii) 275,986 shares of our common stock issued to investors in our Fall 2011 Offering (iii) 130,147 shares as payment to consultants in lieu of accrued and unpaid obligations, and (iv) 47,017 shares as payment of a Noteholder of our Spring 2010 Notes and related accrued interest.

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.

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During the three-month period ended March 31, 2012, we recorded the issuance of an option to purchase an aggregate 6,667 shares of our common stock to an independent member of our Board of Directors, pursuant to the terms of the 2007 Equity Plan which calls for an automatic issuance of an option to any new independent director. The option vests after a period of one year from the date of grant, expires ten years from the date of issuance, and is exercisable at \$0.34 per share, the price of our common stock on the grant date. The fair value of this option totaled \$2,267 and was recorded as selling, general and administrative expense.

During the period ended March 31, 2012, the unvested portion of the March 17, 2011 option issuance to our Chief Financial Officer vested, resulting in \$8,200 of selling, general and administrative expense.

During the period ended March 31, 2012, a portion of the unvested option issuances to consultants vested, resulting in \$49,289 of selling, general and administrative expense.

Activity for our stock options under the 2007 Plan for the three-month periods ended March 31, 2011 and 2012 is as follows:

| As of March 31, 2011: | Options Outstanding | Shares Available | Price per share | Weighted Average Price per share |
|----------------------------------|------------------------|---------------------|--------------------|---|
| Balances as of December 31, 2010 | 4,797,223 | 1,202,777 | \$0.25 – 1.89 | \$0.51 |
| Granted | 1,155,902 | (1,155,902) | 0.41 – 0.45 | 0.41 |
| Exercised | — | — | — | — |
| Canceled | — | — | — | — |
| Balances as of March 31, 2011 | 5,953,125 | 46,875 | \$0.25 – 1.89 | \$0.49 |

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

We recognize compensation expense for stock option awards on a straight-line basis over the applicable service period of the award, which is the vesting period. Share-based compensation expense is based on the grant date fair value estimated using the Black-Scholes Option Pricing Model. The following methodology and assumptions were used to calculate share based compensation for the three-month period ended March 31:

| | 2007 Plan | |
|-------------------------|---------------|--------|
| | 2011 | 2012 |
| Risk free interest rate | 1.96 – 3.42 % | 1.81 % |

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| | | | | |
|-------------------------|-----------|---|-----|---|
| Expected volatility | 562 – 766 | % | 906 | % |
| Expected dividend yield | — | | — | |
| Forfeiture rate | — | | — | |
| Expected life in years | 3-5 | | 5 | |

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

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

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

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

Note 10. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included the following:

| | December 31, 2011 | March 31, 2012 |
|---|----------------------|-------------------|
| Accounts payable and accrued expenses | \$ 448,177 | \$ 478,832 |
| Accrued interest | 86,720 | 114,193 |
| Officer and Board of Director Payables | 171,791 | 398,547 |
| Total Accounts Payable and Accrued Expenses | \$ 706,688 | \$ 991,572 |

Payment of Consultant Fees

On January 31, 2012, we issued an aggregate 30,147 shares of our common stock, at a conversion price of \$0.31, in lieu of \$9,225 of rent expense.

On March 6, 2012, we issued 100,000 shares of our common stock at a conversion price of \$0.35 per share, and recorded \$35,000 to a consultant in exchange for research and marketing services.

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

Accrued Interest

During the three-month periods ended March 31, 2011 and 2012, we recorded \$63,983 and \$29,823 of interest expense, respectively.

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

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Note 11. Notes Payable

On June 8, 2010, we received \$100,000 and issued a promissory note with an initial maturity date of December 3, 2010, which accrues interest at a rate of 10%. The noteholder, for no additional consideration, received a stock purchase warrant entitling the holder to purchase 50,000 shares of our common stock, exercisable at \$0.50 per share until June 3, 2013. (See Note 7.) The maturity date of the note was extended to December 3, 2011, and again, to December 3, 2012.

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

For the three-month periods ended March 31, 2011 and 2012 we recorded \$2,829 and \$2,528 of interest expense related to these note payables.

Note 12. Subsequent Events.

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

Winter 2012 Offering

Pursuant to our Winter 2012 Offering (see Note 5), subsequent to March 31, 2012 we sold 1,772,129 shares of our common stock at \$0.35 per share and received \$620,243 gross and \$579,743 net proceeds from the sales.

Each purchaser of stock in the Winter 2012 Offering will receive, for no additional consideration, a stock purchase warrant (the "Winter 2012 Warrant") entitling the holder to purchase the same number of shares for \$0.50 per share until January 31, 2013.

Extension of CFO Engagement

On April 9, 2012, BioLargo, Inc. (the "Company") and its Chief Financial Officer Charles K. Dargan, II agreed to extend the engagement agreement dated February 1, 2008 (the "Engagement Agreement", which had been previously extended multiple times, most recently in March 2011), pursuant to which Mr. Dargan has been serving as the Company's Chief Financial Officer. The Engagement Extension Agreement dated as of April 9, 2012 (the "Engagement Extension Agreement") provides for an additional term to expire January 31, 2013 (the "Extended Term"). During the Extended Term, Mr. Dargan will be compensated through the issuance of an option to purchase 300,000 shares of the Company's common stock, at a strike price of \$0.35 per share, to expire April 9, 2022, and to vest over the term of the engagement, provided that the Engagement Extension Agreement with Mr. Dargan has not been terminated prior to each vesting date.

Extension of Options Expiration Date

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 20 cents a 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.

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

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

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

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

Such statements, which include statements concerning future revenue sources and concentrations, selling, general and administrative expenses, research and development expenses, capital resources, additional financings and additional losses, are subject to risks and uncertainties, including, but not limited to, those discussed elsewhere in this Form 10-Q, that could cause actual results to differ materially from those projected.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011. Unless otherwise expressly stated herein, all statements, including forward-looking statements, set forth in this Form 10-Q are as of March 31, 2012, unless expressly stated otherwise, and we undertake no duty to update this information.

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

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

Overview

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

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

Armed with a solution to these problems, our BioLargo technology has potential commercial applications within global industries, including animal health, oil and gas extraction, agriculture and livestock, beach and soil environmental remediation, consumer products, food processing, medical, and water industries. While we believe the potential applications are many, we have thus far commercially launched products in only one area -- the animal health industry, under the brand name “Odor-No-More”. In March 2011, we entered into an exclusive license and supply agreement with Central Garden & Pet Company (“Central Garden & Pet”, or “Central”), the industry leading producer of premium pet products in the United States. We believe that the supplier and licensing relationship with Central will likely expand to include multiple products that feature our BioLargo technology, although the agreement does not require Central to launch multiple products, and no assurance can be made that they will do so. Many of Central's product brands are the industry leader and household names with more than 20 years of history, including Kaytee, Nylabone, Four Paws, and others. With sales in the pet industry of more than \$840 million annually, Central is a leading seller and distributor of pet products and supplies in the United States of America.

While we continue to advance our efforts to market and sell our Odor-No-More products, with the addition of key industry experts to our team, we are also actively seeking opportunities for product sales or licensing in the oil and gas industry, the food processing industry, and the medical products industry.

In 2010, we added as a consultant the former chief technology officer of oil industry giant Halliburton, Dr. Vikram Rao. Having spent more than 30 years at Halliburton, Dr. Rao will be consulting with us on development of our technology in the oil and gas industry. Dr. Rao is the author of more than 40 publications, has been awarded 24 patents, serves as the Executive Director of the Research Triangle Energy Consortium, and brings his experience and industry connections to BioLargo. In December 2011 we announced that we had been selected as a founding member of a Canadian Natural Sciences and Engineering Research Council (“NSERC”) “research chair”, joined by globally leading oil companies, the regional water district in Alberta Canada and the University of Alberta. The Chair was formed to solve the contaminated water and tailings ponds problems associated with the oil sands industry and commenced in December of last year. The Canadian Oil Sands are the second largest deposit of oil in the world. Extracting oil from the Oil Sands creates high volumes of contaminated water (between 2 and 4.5 barrels of water to produce one barrel of synthetic crude oil), currently discharged in “tailings” ponds, sometimes for years, to separate the solids from the liquids for eventual recycling or safe discharge into the environment. With Canadian oil production estimated to increase from 1.9 million to over 6 million barrels of oil a day over the next 20 years, the released water from oil sands operations is estimated to reach one billion cubic meters in the Athabasca oils sands region by 2025.

An innovative solution that can reduce the water treatment time, and thus the overall footprint and environmental impact of the tailings ponds, is required for Canada to meet its production goals. It is widely believed that the future of oil sands exploration, its social and economic contribution as the second largest oil reserve in the world, and its contribution to the public good of both Canada and the United States, hinges on industry's ability to manage the wastewater in tailings ponds.

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In February 2011, we added to our team former Pepsi-Cola International VP of Technical Services, and recognized industry water treatment expert, Harry DeLonge. Having spent more than 40 years at Pepsi-Cola International, Mr. DeLonge will assist us in our efforts to commercialize our BioLargo technology in the food and beverage industry. Within the food and beverage industry, we believe the BioLargo technologies are useful in a number of applications, including “clean-in-place” related uses, treating processed and wastewater, and for enhancing performance of certain filter and water treatment technologies. In addition, we believe that we have a cost effective solution for managing dangerous and/or odorless compounds common with this industry. With Mr. DeLonge’s assistance, we are developing new patents and other intellectual property, advancing proof of claim, pilot projects and seeking customers and/or licensing partners. These efforts are continuing in 2012.

In August of 2011, we added Tim Johnson, medical products expert, to our management team to develop and exploit commercial opportunities within the medical industry. Since that time, in addition to organizing an internal team to champion products in this segment, we have developed prototype wound care and medical-use products incorporating our BioLargo technology for evaluation and proving basic product claims. We have engaged third party labs to validate basic product claims, verifying that the newly developed products meet required safety and efficacy benchmarks according to industry specific standards. We are actively engaged in discussions with potential strategic partners about forming a business relationship to initiate the required regulatory applications and ultimately introduce the new products to market.

Results of Operations—Comparison of the three-month periods ended March 31, 2012 and 2011

Revenue

We generated \$30,816 in revenues during the three-month period ended March 31, 2012, and \$9,518 in revenues during the three-month period ended March 31, 2011. Revenues increased along all of our three Odor-No-More branded product lines.

Cost of Goods Sold

Our cost of goods sold was \$17,772 or 58% of revenues for the three-month period ended March 31, 2012, as compared with \$19,663, or 207% of revenues for the three-month period ended March 31, 2011. 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 large or consistent revenue base, the inclusion of the fixed costs related to the product development and manufacturing increases our cost of goods disproportionately, resulting in high percentage fluctuations. The difference in the percentage in 2011 versus 2010 is due to such fluctuations.

Selling, General and Administrative Expense

Selling, General and Administrative expenses were \$700,438 for the three-month period ended March 31, 2012, compared to \$1,153,485 for the three-month period ended March 31, 2011, a decrease of \$453,047. The largest components of these expenses were:

a. Salaries and Payroll-related Expenses: These expenses were \$194,472 for the three-month period ended March 31, 2012, compared to \$468,305 for the three-month period ended March 31, 2011, a decrease of \$273,833. There were no cash bonuses, issuances of stock or options to our executives/management during the three-month period ended March, 31, 2012 as compared to 2011 where we issued bonuses to our Chief Executive Officer, Chief Technology Officer and Secretary and the expense related to the fair value of the stock issuance to our Chief Executive Officer and Chief Technology Officer.

b. Consulting Expenses: These expenses were \$242,357 for the three-month period ended March 31, 2012, compared to \$308,602 for the three-month period ended March 31, 2011, a decrease of \$66,245. The decrease is primarily attributable to a reduced amount of non-cash stock option compensation expense and stock issued for services to consultants in 2012.

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c. Professional Fees: These expenses were \$93,358 for the three-month period ended March 31, 2012, compared to \$160,103 for the three-month period ended March 31, 2011, a decrease of \$66,745. This decrease is consistent with our usage of professionals for accounting and legal costs associated with our operations.

Research and Development

Research and development expenses were \$16,311 for the three-month period ended March 31, 2012, compared to \$27,188 for the three-month period ended March 31, 2011, a decrease of \$10,877. The decrease is related to a higher expense for patent application and prosecution expense in the three-month period ended March 31, 2011.

Interest expense

Interest expense totaled \$215,931 for the three-month period ended March 31, 2012, compared to \$246,936 for the three-month period ended March 31, 2011, a decrease of \$31,005. The decrease is primarily due to the reduction of interest expense related to a decrease in our outstanding convertible notes and amortization of the discount based on the fair value of the warrants issued in connection with our convertible debt.

Net Loss

Net loss for the three-month period ended March 31, 2012 was \$920,971, a loss of \$0.02 per share, compared to a net loss for the three-month period ended March 31, 2011 of \$1,440,249, a loss of \$0.03 per share. The decrease in net loss for the three-month period ended March 31, 2011 is primarily attributable to the reduction of non-cash option expense related to the issuance of options to the management team and common stock to consultants for services provided, recorded in 2011. Additionally, a reduction of interest expense related to a decrease in our outstanding convertible notes and amortization of the discount based on the fair value of the warrants issued in connection with our convertible debt.

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 \$310,592 at March 31, 2012. We had negative working capital of \$1,425,507 as of March 31, 2012, compared with negative working capital of \$928,669 as of March 31, 2011. We had negative cash flow from operating activities of \$379,000 for the three-month period ended March 31, 2012, compared to a negative cash flow from operating activities of \$419,350 for the three-month period ended March 31, 2011. We used cash from financing activities to fund operations. Although we have reduced our negative working capital position in the three-month period ended March 31, 2012, 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 \$920,971 for the three-month period ended March 31, 2012, and an accumulated stockholders' deficit of \$68,386,265 as of March 31, 2012. The foregoing factors raise substantial doubt about our ability to continue as a going concern. Ultimately, our ability to continue as a going concern is dependent upon our ability to attract significant new sources of capital, attain a reasonable threshold of operating efficiencies and achieve profitable operations by licensing or otherwise commercializing products incorporating our BioLargo technology. The accompanying condensed consolidated

financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

As of March 31, 2012, we had \$1,184,185 aggregate principal amount outstanding on various promissory notes. We may pay the principal and interest due on these notes in cash or in stock, at our option, at maturity. In addition, as of March 31, 2012, we had \$991,572 of outstanding accounts payable and accrued expenses, of which \$114,193 relates to interest due on outstanding promissory notes, and \$877,379 relates to accrued and unpaid payables. (See Note 10.)

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During the three-month period ended March 31, 2012, we received \$561,094 pursuant to our private securities offerings. (See Note 5.)

We will be required to raise substantial additional capital to expand our operations, including without limitation, hiring additional personnel, additional scientific and third-party testing, costs associated with obtaining regulatory approvals and filing additional patent applications to protect our intellectual property, and possible strategic acquisitions or alliances, as well as to meet our liabilities as they become due for the next 12 months. We may also be compelled to reduce or curtail certain activities to preserve cash.

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

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

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

Critical Accounting Policies

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

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

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

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

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

Recent Accounting Pronouncements

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

Inflation

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

Item 4.

Controls and Procedures

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

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

It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

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

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PART II

OTHER INFORMATION

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

Winter 2012 Offering

Pursuant to a private offering of our common stock at a price of \$0.35 per share that commenced January 2012 (the “Winter 2012 Offering”), through March 31, 2012, we sold 1,327,150 shares of our common stock at \$0.35 per share from 15 accredited investors and received \$464,500 gross and \$440,500 net proceeds from the sales.

Each purchaser of stock in the Winter 2012 Offering will receive, for no additional consideration, a stock purchase warrant (the “Winter 2012 Warrant”) entitling the holder to purchase the same number of shares for \$0.50 per share until January 31, 2013.

Fall 2011 Offering

Pursuant to a private offering of our common stock at a price of \$0.35 per share that commenced September 2011 (the “Fall 2011 Offering”) and closed December 2011, through the three-month period ended March 31, 2012, we received \$96,594 gross proceeds from subscriptions committed prior to the termination of the offering, and issued 275,896 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. (See Note 7.)

Spring 2010 Notes

On February 6, 2012, a holder of a promissory note issued in our Spring 2010 Offering (see Note 5) elected to convert the principal balance of \$25,000, and accrued unpaid interest of \$2,034, into an aggregate 47,017 shares of our common stock, at a conversion price of \$0.575.

Payment of Consultant Fees

On January 31, 2012, we issued an aggregate 30,147 shares of our common stock, at a conversion price of \$0.31, in lieu of \$9,225 of rent expense.

On March 6, 2012, we issued 100,000 shares of our common stock at a conversion price of \$0.35 per share, and recorded \$35,000 to a consultant in exchange for research and marketing services.

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

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Item 6. Exhibits

The exhibits listed below are attached hereto:

| Exhibit No. | Description |
|-------------|--|
| 31.1* | Certification of Chief Executive Officer of Quarterly Report Pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e). |
| 31.2* | Certification of Chief Financial Officer of Quarterly Report Pursuant to 18 U.S.C. Section 1350 |
| 32** | Certification of Chief Executive Officer and Chief Financial Officer of Quarterly Report pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e). |
| 101.INS** | XBRL Instance |
| 101.SCH** | XBRL Taxonomy Extension Schema |
| 101.CAL** | XBRL Taxonomy Extension Calculation |
| 101.DEF** | XBRL Taxonomy Extension Definition |
| 101.LAB** | XBRL Taxonomy Extension Labels |
| 101.PRE** | XBRL Taxonomy Extension Presentation |

* Filed herewith

** Furnished herewith

SIGNATURES

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

BIOLARGO, INC.

Date: May 14, 2012

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

Date: May 14, 2012

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

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