BIOLARGO, INC.
Form 10-Q
August 16, 2010
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010.

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.)

16333 Phoebe Avenue
La Mirada, California 90638
(Address, including zip code, of principal executive offices)

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

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

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

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

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

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

The number of shares of the Registrant’s Common Stock outstanding as of August 12, 2010 was 47,525,036 shares.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

BIOLARGO, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2009 AND JUNE 30, 2010

	December 31, 2009	June 30, 2010 (unaudited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$135,350	$55,769
Accounts receivable	14,607	15,971
Inventory	9,678	5,576
Prepaid expenses	4,586	3,815
Total current assets	164,221	81,131
FIXED ASSETS		
Equipment, net	16,390	11,608
Total fixed assets	16,390	11,608
TOTAL ASSETS	$180,611	$92,739
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$1,273,028	$1,425,347
Accrued option compensation expense	679,210	375,333
Convertible notes payable, current portion	1,913,625	945,625
Discount on convertible notes, current portion net of amortization	(470,822)	(368,705)
Note payable	70,000	150,000
Discount on note payable	—	(16,667)
Deferred revenue	—	102,067
Total Current Liabilities	3,465,041	2,613,000
LONG-TERM LIABILITIES		
Convertible notes payable, net of current portion	1,372,410	1,789,660
Discount on convertible notes, net of current portion and amortization	(793,523)	(925,477)
Total Long-term Liabilities	578,887	864,183
TOTAL LIABILITIES	4,043,928	3,477,183

COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS		
STOCKHOLDERS' EQUITY		
Convertible Preferred Series A, $.00067 Par Value, 50,000,000 and 25,000,000 Shares Authorized, -0- Shares Issued and Outstanding, at June 30, 2010 and December 31, 2009.	—	—
Common Stock, $.00067 Par Value, 200,000,000 Shares Authorized, 45,617,225 and 43,196,355 Shares Issued, at June 30, 2010 and December 31, 2009, respectively	28,969	30,576
Additional Paid-In Capital	53,876,278	57,658,193
Accumulated Deficit	(57,768,564)	(61,073,213)
Total Stockholders' Equity (Deficit)	(3,863,317)	(3,384,444)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$180,611	$92,739

See accompanying notes to unaudited consolidated financial statements

BIOLARGO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2009 AND 2010
(unaudited)

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)
Revenue	$ —	$ 80,792	$ —	$ 91,525
Total revenue	—	80,792	—	91,525
Cost of goods sold	—	55,251	—	63,790
Total cost of goods sold	—	55,251	—	63,790
Costs and expenses				
Selling, general and administrative	1,085,878	803,443	2,077,668	2,391,930
Research and development	56,389	28,347	93,318	71,492
Amortization and depreciation	279,192	2,391	558,384	4,782
Total costs and expenses	1,421,459	834,953	2,729,370	2,468,976
Loss from operations	(1,421,459)	(809,412)	(2,729,370)	(2,441,241)
Other income and (expense)				
Interest expense	(471,280)	(481,484)	(874,806)	(863,408)
Other income	(1,457)	—	1,564	—
Net other income and (expense)	(472,737)	(481,484)	(873,242)	(863,408)
Net loss	$ (1,894,196)	$ (1,290,896)	$ (3,602,612)	$ (3,304,649)
Loss per common share – basic and diluted				
Loss per share	$ (0.04)	$ (0.03)	$ (0.08)	$ (0.08)
Weighted average common share equivalents outstanding	42,480,208	43,653,117	42,405,368	43,582,796

See accompanying notes to unaudited consolidated financial statements

BIOLARGO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2010 (UNAUDITED)

	Common Stock Number of Shares	Common Stock Par Value $.00067	Additional Paid-In Capital	Retained Earnings (Deficit)	Total
BALANCE DECEMBER 31, 2009	43,196,355	$28,969	$ 53,876,278	$ (57,768,564)	$ (3,863,317)
Vested portion of stock options	—	—	997,134	—	997,134
Issuance of warrants as part of convertible note offering and note payable	—	—	436,855	—	436,855
Fair value of the six-month extension of the 2009 Warrant	—	—	277,992	—	277,992
Issuance of stock options and a warrant to consultants	—	—	140,000	—	140,000
Issuance of stock options to officers and Board of Directors	—	—	362,000	—	362,000
Issuance of stock for services to board of directors	114,287	77	79,923	—	80,000
Issuance of stock for services to consultants	256,525	172	130,179	—	130,351
Conversion of the accrued interest obligations related to the 2009 Spring Notes	109,851	74	42,200	—	42,274
Conversion of the accrued interest obligations related to the 2008 Spring Notes	152,208	102	65,223	—	65,325
Conversion of 2007 Offering of convertible notes and related accrued interest obligations	1,787,999	1,182	1,250,409	—	1,251,591
Net loss for the six-month period ended June 30, 2010	—	—	—	(3,304,649)	(3,304,649)
BALANCE JUNE 30, 2010	45,617,225	$ 30,576	$ 57,658,193	$ (61,073,213)	$ (3,384,444)

See accompanying notes to unaudited consolidated financial statements

BIOLARGO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR SIX-MONTH PERIODS ENDED JUNE 30, 2009 AND 2010

(unaudited)

	For the six-month periods ended June 30, 2009	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$(3,602,612)	$(3,304,649)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Non-cash accrued option compensation expense	—	693,257
Non-cash expense related to options issued to officers and board of directors	645,778	362,000
Non-cash interest expense related to the amortization of the fair value of warrants issued in conjunction with our convertible notes	736,634	668,343
Non-cash expense related to options issued to consultants	349,500	140,000
Non-cash expense related to stock issued to consultants and professionals for settlement of obligations	188,702	142,852
Amortization and depreciation expense	558,384	4,782
Increase in accounts payable and accrued expenses	403,020	611,008
Increase in deferred revenue	—	102,067
Increase in accounts receivable	—	(1,364)
(Increase) Decrease in inventory	(53,274)	4,102
Decrease in prepaid expenses	—	771
Net Cash Used In Operating Activities	(704,143)	(576,831)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of note payable	—	(20,000)
Proceeds from convertible notes	679,410	417,250
Proceeds from a note payable	—	100,000
Net Cash Provided By Financing Activities	679,410	497,250
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(24,733)	(79,581)
CASH AND CASH EQUIVALENTS — BEGINNING	90,384	135,350
CASH AND CASH EQUIVALENTS — ENDING	$65,651	$55,769
SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION		
Cash Paid During the Period for:		
Interest	$ —	$ —
Taxes	$1,600	$3,000
Conversion of accrued expenses to shares of the Company’s common stock:		
Board of Directors and officer obligations incurred in 2009	$150,000	$60,000
Consultant obligations incurred in 2009	$75,678	$7,500
Consultant obligations incurred in 2010	$—	$22,500
Conversion related party obligations – New Millennium and other.	$242,358	$—

Conversion of promissory notes and interest to shares of the Company’s common stock:		
Conversion of the 2007 Notes	$—	$968,000
Convertible Noteholders' related accrued interest incurred in 2009	$—	$253,051
Convertible Noteholders' and related accrued interest incurred in 2010	$—	$138,138
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Fair value of the issuance of warrants in conjunction with convertible note offerings	$679,410	$416,855
Issuance of a warrant in conjunction with a note payable	$—	$20,000
Issuance of a warrant to a consultant for services provided	$—	$25,000
Repriced warrants in conjunction with convertible note offering	$277,992	$277,992

See accompanying notes to unaudited consolidated financial statements

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

Note 1. Business and Organization

Outlook

The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of our business. As reflected in the accompanying financial statements, we had a net loss of $3,304,649 for the six-month period ended June 30, 2010, and an accumulated stockholders' deficit of $61,073,213 as of June 30, 2010. 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 was $55,769 at June 30, 2010. We generated revenues of $91,525 in the six-month period ended June 30, 2010, which amount was not sufficient to fund our operations, and we incurred negative cash flow from operating activities of $576,831 for the six-month period ended June 30, 2010. We had negative working capital of $2,531,869 for the six-month period ended June 30, 2010. Our accounts payable and accrued expenses increased by $152,319 during six-month period ended June 30, 2010 and were $1,425,347 at June 30, 2010. We do not have enough cash or source 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. Additionally, our officers are continuing to finance operations by delaying the receipt of their salary and by incurring expenses which have not been reimbursed.

As of June 30, 2010 we had $2,885,285 aggregate principal amount, together with $116,004 accrued and unpaid interest, outstanding on various promissory notes. We may pay of the majority of these amounts in cash or in stock, at our option, at maturity. In addition, as of June 30, 2010, we had $1,159,343 in accrued and unpaid payables (see Note 11) and $150,000 in accrued and unpaid interest to New Millennium Capital Partners, LLC, an entity controlled by Dennis P. Calvert, our President and Chief Executive Officer. (See Notes 13 and 15.)

On January 15, 2010 we commenced a private offering of our convertible promissory notes, and through June 30, 2010, we sold $417,250 principal amount of convertible notes. (See Note 4.)

In the opinion of management, the accompanying balance sheets and related 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 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 have less than a year of historical operating revenues, and therefore our operating results for the six-month period ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ended December 31, 2010, or for any other period. These unaudited 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, 2009 filed with the Securities and Exchange Commission (the "SEC").

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

Organization

We were initially organized under the laws of the State of Florida in 1989 as Repossession Auction, Inc. In 1991, we merged into a Delaware corporation bearing the same name. In 1994, we changed our name to Latin American Casinos, Inc. to reflect our new focus on the gaming and casino business in South and Central America, and in 2001 we changed our name to NuWay Energy, Inc. to reflect our new emphasis on the oil and gas development industry. During October 2002, we changed our name to NuWay Medical, Inc. coincident with the divestiture of our non-medical assets and the retention of new management. In March 2007, in connection with the approval by our stockholders of the acquisition of the BioLargo technology, we changed our name to BioLargo, Inc.

Business 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.

In addition to our BioLargo technology, in 2008 we acquired the rights to market an iodine based water disinfection system (the "Isan system") from Ioteq IP Pty. Ltd., an Australian company, and its U.S. affiliate Ioteq Inc., and recently licensed the rights to commercialize the Isan system from Ioteq. The Isan system is an automated water disinfection system that substantially reduces the incidence of fungal growth, spoilage, organisms and pathogens in water and on food. On March 29, 2010, we licensed the rights to commercialize the Isan system from Ioteq, and sublicensed those rights to a third party, in particular fields of use. (See Note 4.)

Both our BioLargo technology and the Isan system have potential commercial applications within global industries, including but not limited to agriculture, animal health, beach and soil environmental remediation, consumer products, food processing, medical, and water industries. While we believe the potential applications are many, we are currently focused in two primary areas – the development of certain products designed for the animal health industry, and agriculture.

First, in 2009, we launched our first products incorporating our BioLargo technology under the brand name "Odor-No-More", in the animal health industry. The primary benefits of the products are odor and moisture control, and customers using our animal bedding additive experience a net savings on total bedding costs. We have focused our efforts on building wholesale distribution, and in 2010, we intend to expand our marketing efforts into new industries, as well as continue evaluating new product opportunities within the same industry.

Second, we are actively seeking to secure strategic partners to either license or partner with to exploit commercial opportunities for CupriDyne™ and for the Isan system. In March 2010, we entered into a series of transactions whereby we licensed the Isan system technology from Ioteq, and then sublicensed the technology to a third party for commercialization in the United States in certain fields of use. We are still actively marketing the Isan system for opportunities outside the United States pursuant to our marketing agreement with Ioteq, and in the United States through an agency agreement with Isan USA. We continue research and product development for our CupriDyne™ technology, and continue to work with a number of global companies who are engaged in technology evaluation and testing processes. Simultaneously, we are also actively seeking to identify and negotiate regional or global partnerships to exploit commercial opportunities for both CupriDyne™ and the Isan technologies. No such regional or global partnerships have been formed at this time, and we can make no representation about our ability to successfully conclude such arrangements.

Although we are focused primarily on odor control products and agriculture, we also intend to continue to advance our intellectual property, product designs and licensing opportunities for our technology for use in other industries, as capital resources are available to support these efforts. We continue to market both our BioLargo technology and the Isan system to various companies for licensure in numerous industry segments.

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

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

As of June 30, 2010, we had two subsidiaries, BioLargo Life Technologies, Inc. (“BLTI”) and Odor-No-More, Inc. (“ONM”). The consolidated balance sheets include the accounts of BioLargo, Inc. and BLTI and ONM. All significant inter-company balances have been eliminated in consolidation.

Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of three months or less or money market funds from substantial financial institutions to be cash equivalents. We place substantially all of our cash and cash equivalents with one financial institution.

Accounts Receivable

Trade accounts receivable are recorded net of allowances for doubtful accounts. Estimates for allowances for doubtful accounts are determined based on payment history and individual customer circumstances. The allowance for doubtful accounts was zero at June 30, 2010.

Inventory

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

	December 31, 2009	June 30, 2010
Raw Materials	$4,241	$ 576
Finished Goods	5,437	5,000
Total	$ 9,678	$ 5,576

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 $17,081 as of June 30, 2010. Depreciation expense for the six-month periods ended June 30, 2009 and 2010 was $4,782 and $4,782, respectively.

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 six-month periods ended June 30, 2009 and 2010, 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.

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.

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

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.

Revenue Recognition

We recognize revenues based upon contract terms and completion of the sales process in accordance the SEC codification of revenue recognition.

We also 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.

Recent Accounting Pronouncements

Only July 1, 2009, the Financial Accounting Standards Board (FASB) launched the FASB Accounting Standards Codification as the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification is effective for interim and annual periods ending after September 15, 2009. All existing accounting standards documents are superseded as described in FASB Statement No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. All other accounting literature not included in the Codification is nonauthoritative.

Other recent accounting updates 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.

Note 3. Intangible Assets/Long-lived Assets and Impairment

Amortization expense for the intangible assets for the six-month periods ended June 30, 2009 and 2010 was $553,602 and $0.

Management performed its assessment of the fair value of the intangible assets for the year ended December 31, 2009. In our undertaking we analyzed the projected cash flow from the assets discounted at appropriate rates, the length of time to full development of the cash flow potential and the current recessionary state of the world-wide economy. We determined after this analysis that it was appropriate for us to record an impairment charge of 8,781,133 consisting of $8,610,940, which was the remaining net book value of our licensing rights acquired from IOWC Technologies, Inc., in March 2007, and $170,193, which was the remaining net book value of certain agreements assigned to us as part of the acquisition of the BioLargo technology from IOWC Technologies, Inc., in March 2007. The impairment charge reduced the net book value of the asset to zero.

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

Note 4. Deferred Revenue

Sublicense to Isan USA

On March 29, 2010, we entered into a sublicense agreement (the “Isan USA Sublicense”) with Isan USA, Inc. (“Isan USA”) which grants Isan USA the exclusive rights to use, exploit, develop and commercialize the Isan System Technology in the United States, in particular fields of use. Pursuant to the Isan USA Sublicense, Isan USA paid to BioLargo a $100,000 initial license fee, of which $2,500 amount is recorded as deferred revenue as of June 30, 2010.

ET Horn Warehouse

ET Horn purchased $43,031 of our Odor-No-More product from us during the quarter ending June 30, 2010. ET Horn warehouses our product and we sell through the inventory they purchased and for revenue recognition purposes the sale to ET Horn is deferred until such time we sell through our product to retailers and/or end-users. As of June 30, 2010, a balance of $4,567 relating to ET Horn remains as deferred revenue.

Note 5. Private Security Offerings

Summary of Outstanding Private Security Offerings

The following tabular summary describes some key terms of our private securities offerings, and should be read in conjunction with the detailed descriptions in this footnote.

Name	Maturity Date	Interest	Conversion Price	Amount Outstanding
Spring 2010 Offering	4/15/13	10%	$ 0.575	$ 417,250
Spring 2009 Offering	6/1/12	10%	$ 0.55	681,410
Fall 2008 Offering	10/15/11	10%	$ 1.00	723,000
Spring 2008 Offering	3/31/11	10%	$ 1.35	913,625
Total				$ 2,735,285

Spring 2010 Offering

Pursuant to a private offering that commenced January 2010 (the “Spring 2010 Offering”) and continued through June 2010, we sold $417,250 of our 10% convertible notes (the “Spring 2010 Notes”), which are due and payable on April 15, 2013, to 16 investors, convertible into an aggregate 725,660 shares of our common stock. The Spring 2010 Notes are convertible into shares of our common stock at an initial conversion price of $0.575 per share. The Spring 2010 Notes can be converted voluntarily by the noteholders at any time prior to the maturity date. We can unilaterally convert the Spring 2010 Notes (i) on or after July 31, 2010, if we have received one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least $3 million gross proceeds of equity or debt; or (ii) on the maturity date. Accordingly, the Spring 2010 Notes may be repaid in cash or may be converted, at our sole option, into shares of our common stock, on or before the April 15, 2013 maturity date.

Each purchaser of the Spring 2010 Notes received, for no additional consideration, two stock purchase warrants, each of which entitle the holder to purchase the number of shares of our common stock into which the holder’s Spring 2010 Note is initially convertible. The first warrant (the “Spring 2010 Eighteen Month Warrant”) is exercisable at a price of

$0.75 per share and expires 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 8.)

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

Spring 2009 Offering

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

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”) is exercisable at a price of $0.75 per share and expires on June 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 8.)

Fall 2008 Offering

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

Each purchaser of the Fall 2008 Notes received, for no additional consideration, two stock purchase warrants (a one-year warrant and a three-year warrant), each of which entitled the holder to purchase the number of shares of our common stock into which the holder’s Fall 2008 Note is initially convertible. As originally offered, the first warrant (the “Fall 2008 One-Year Warrant”) was exercisable at $1.00 per share and was due to expire on October 15, 2009. The second warrant (the “Fall 2008 Three-Year Warrant” and together with the One-Year Warrant, the “Fall 2008 Warrants”) was exercisable at $2.00 per share and was due to expire on October 15, 2011. (See Note 8.)

On January 16, 2009, our Board of Directors amended the terms of the Offering as follows: (i) the initial conversion price of the Fall 2008 Notes was reduced from $1.00 per share to $0.50 per share; (ii) the exercise price of the Fall 2008 One-Year Warrant was reduced from $1.00 per share to $0.75 per share; (iii) the exercise price of the Fall 2008 Three-Year Warrant was reduced from $2.00 per share to $1.00 per share; and the number of shares of our common stock for which the Fall 2008 One-Year Warrants and the Fall 2008 Three-Year Warrants may be exercised is being increased from one share per dollar invested to two shares for each dollar invested. The Fall 2008 One-Year Warrants expired unexercised on October 15, 2009.

Spring 2008 Offering

Pursuant to a private offering that commenced March 2008 (the “Spring 2008 Offering”) and terminated August 2008, we sold $913,625 of our 10% convertible notes (the “Spring 2008 Notes”), which were due and payable on March 31, 2010, to 30 investors, convertible into an aggregate 676,775 shares of our common stock. The Spring 2008 Notes are convertible into shares of our common stock at an initial conversion price of $1.35 per share. The Spring 2008 Notes can be converted voluntarily by the noteholders at any time prior to the maturity date. We can unilaterally convert the Spring 2008 Notes (i) on or after September 30, 2008, 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 2008 Notes may be repaid in cash or may be converted, at our sole option, into shares of our common stock, on or before the maturity date.

BIOLARGO, INC. AND SUBSIDIARIES
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Each purchaser of the Spring 2008 Notes received, for no additional consideration, two stock purchase warrants (a one-year warrant and a three-year warrant), each of which entitled the holder to purchase the number of shares of our common stock into which the holder's Spring 2008 Note is initially convertible. The "Spring 2008 One-Year Warrants" expire on March 31, 2009 and were exercisable at $0.50 (originally $1.50) per share. The "Spring 2008 Three-Year Warrants" are exercisable at an initial exercise price of $2.00 per share and expire on March 31, 2011. On September 19, 2008, our Board of Directors reduced the exercise price of the Spring 2008 One-Year Warrants from $1.50 per share (the original exercise price pursuant to the terms of the Spring 2008 Offering) to $1.00 per share. On January 16, 2009, our Board of Directors reduced the exercise price of the Spring 2008 One-Year Warrants from $1.00 per share to $0.50 per share. The Spring 2008 One-Year Warrants expired unexercised on March 31, 2009.

On March 30, 2010, our board accepted proposals from the holders of the Spring 2008 Notes to extend the maturity date of the notes by one year, such that the Spring 2008 Notes mature on March 31, 2011.

Note 6. Conversion of 2007 Note

Pursuant to a private offering that commenced May 2007 (the "2007 Offering") and terminated December 2007, we sold $1,000,000 of our convertible notes (the "2007 Notes"), which were initially due and payable on June 30, 2009 (extended by one year to June 30, 2010, see Note 6) to 21 investors, the principal of which is convertible into an aggregate 1,428,582 shares of our common stock. The 2007 Notes interest rate was 10%, compounding annually. On November 23, 2009, a holder of a 2007 Note in the principal amount of $32,000 elected to convert the note, and accrued and unpaid interest in the amount of $8,364, into 57,663 shares of our common stock, at a conversion rate of $0.70 per share in accordance with the terms of the note.

On June 30, 2010, per the terms of the 2007 Notes, we elected to convert the remaining aggregate principal amount of $968,000, which amount represented the entire then outstanding principal amount of the 2007 Notes, and $283,618 of accrued but unpaid interest, into an aggregate 1,787,999 shares of our common stock, at a conversion rate of $0.70 per share. All of the 2007 Notes have been converted into shares of our common stock as of June 30, 2010.

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

Note 7. Issuance of Securities in exchange for payment of payables

Payment of Officer Salaries and Board of Director Fees

On January 4, 2010, we issued an aggregate 114,287 shares of our common stock, at a conversion price of $0.70, which was the closing price of our common stock on the day of issuance, to two members of our board of directors in lieu of $80,000 in accrued and unpaid payables for their services as a director. Of this amount $60,000 related to payables accrued and unpaid as of December 31, 2009.

Payment of Consultant Fees

On February 1, 2010, we issued an aggregate 200,000 shares of our common stock, at a conversion price of $0.50, which was the closing price of our common stock on the day of issuance, to a consultant for services provided. We recorded $100,351 in consulting expense in 2010 related to that issuance.

On June 1, 2010, we issued an aggregate 56,525 shares of our common stock, at a conversion price of $0.53, which was the trailing 20 day average of our common stock, to a consultant for services provided in lieu of $30,000 in accrued and unpaid payables.

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Note 8. Warrants

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

	Number of Shares	Price Range
Outstanding as of December 31, 2009	9,766,456	$0.125 – 2.00
Issued	1,551,320	0.50 – 1.00
Exercised	—	—
Expired	1,446,000	1.00
Outstanding as of June 30, 2010	9,871,776	$0.125 – 2.00

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:

	2009	2010
Risk free interest rate	1.83 – 2.49%	0.37 – 1.47%
Expected volatility	203 – 615%	244 – 470%
Expected dividend yield	—	—
Forfeiture rate	—	—
Expected life in years	0.50 – 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 term 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

The aggregate fair value of the warrants issued and outstanding as of June 30, 2010 totaled $2,829,850 was issued in conjunction with our convertible notes and is recorded on our balance sheet as discount on convertible notes net of amortization of $1,535,668. We recorded $735,853 and $681,935 of interest expense related to the amortization of the discount on convertible notes for the six-month periods ended June 30, 2009 and 2010, respectively.

Spring 2010 Warrants

From the inception of our Spring 2010 Offering on January 15, 2010, through June 30, 2010, we issued warrants to purchase up to an aggregate 1,451,320 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 725,660 shares which 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 725,660 shares which expire January 15, 2013, at an exercise price of $1.00 per share.

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

On June 1, 2010, the expiration of the Spring 2009 One-Year Warrants was extended from June 1, 2010 through December 1, 2010, resulting in additional fair value totaling $277,992, which $46,332 was recorded as interest expense during June 2010. The remaining fair value will be amortized as interest expense over the term of the warrant.

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Fall 2008 Warrants

From January 2009 through June 2009, we issued warrants to purchase up to an aggregate 2,652,000 shares of our common stock to purchasers of our Fall 2008 Notes, consisting of Fall 2008 One-Year Warrants to purchase an aggregate 1,326,000 shares which expire 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 1,326,000 shares which expire October 15, 2011, at an exercise price of $1.00 per share (initially issued at $2.00 per share).

On January 16, 2009, the exercise price of the Fall 2008 One-Year Warrants was reduced from $1.00 to $0.75, and the exercise price of the Fall 2008 Three-Year Warrants was reduced from $2.00 to $1.00, resulting in additional fair value totaling $52,967, which was recorded as interest expense.

From October 2008 through December 2008, we issued warrants to purchase up to an aggregate 240,000 shares of our common stock to purchasers of our Fall 2008 Notes, consisting of Fall 2008 One-Year Warrants to purchase an aggregate 120,000 shares which expire 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 120,000 shares which expire October 15, 2011, at an exercise price of $1.00 per share (initially issued at $2.00 per share).

Other Warrants

On February 5, 2010 we issued a warrant to a consultant for services provided to purchase up to an aggregate 50,000 shares of our common stock at an exercise price of $0.50 per share, resulting in a fair value of $25,000, which was recorded as selling, general and administrative expense. The warrant expires February 5, 2013.

On June 8, 2010 we issued a warrant to the holder of a note payable to purchase up to an aggregate 50,000 shares of our common stock at an exercise price of $0.50 per share, resulting in a fair value of $20,000, of which $3,333 was recorded as interest expense during June 2010. The remaining fair value will be amortized as interest expense over the term of the warrant. The warrant expires June 8, 2013.

Note 9. 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, 2009 and June 30, 2010 there were no outstanding shares of our preferred stock.

Common Stock

As of December 31, 2009 and June 30, 2010 there were 43,196,355 and 45,617,192 shares of common stock outstanding, respectively. The increase in shares during the six-month period ended June 30, 2010 is comprised of the following stock issuances: (i) 256,525 shares of our common stock to consultants for services provided, (ii) 114,287 shares of our common stock to two directors in exchange for their services as a director, (iii) 109,851 shares of our common stock as payment for accrued interest related to our 2009 Spring Notes, (iv) 152,175 shares of our common stock as payment for accrued interest related to our 2008 Spring Notes, and (v) 1,787,999 shares as payment of our 2007 Notes and related accrued interest.

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Note 10. Stock-Based Compensation and Other Employee Benefit Plans

2007 Equity Incentive Plan

On August 7, 2007, our Board of Directors adopted the BioLargo, Inc. 2007 Equity Incentive Plan ("2007 Plan") as a means of providing our directors, key employees and consultants additional incentive to provide services. Both stock options and stock grants may be made under this plan. The Compensation Committee administers this plan. The plan allows grants of common shares or options to purchase common shares. As plan administrator, the Compensation Committee has sole discretion to set the price of the options. The Compensation Committee may at any time amend or terminate the plan. See our 10K as filed for further details of the 2007 Plan.

During the six-month period ended June 30, 2010, we granted options to purchase an aggregate 60,000 shares of our common stock to our Chief Financial Officer, pursuant to the terms of our engagement agreement with him. These options are exercisable at various exercise prices ranging between $0.25 and $0.50 depending upon their respective dates of grant, and resulted in an aggregate fair value of $24,000 and was recorded as selling, general and administrative expense as of June 30, 2010. Each option is fully vested upon grant and is exercisable for ten years from its respective date of grant.

On February 1, 2010, the Company's Compensation Committee issued options pursuant to the Company's 2007 Equity Incentive Plan to certain employees, outside consultants and professionals who have and continue to provide services to the Company, consistent with management's recommendations to the committee.

In total, options to purchase an aggregate 1,060,000 shares of the Company's common stock were issued, at an exercise price of $0.575 per share, which price was $0.075 more than the $0.50 closing price of the Company's common stock on the date of grant. Of the options issued, 400,000 were issued to third party consultants for their respective roles within the Company and the remaining 660,000 options were issued to the Company's principal executive officer, principal financial officer, and named executive officers, as set forth in the following table:

Name	Position	Number of Shares Underlying Options
Dennis P. Calvert	President and Chief Executive Officer	200,000
Charles K. Dargan II	Chief Financial Officer	60,000
Kenneth R. Code	Chief Technology Officer	200,000
Joseph L. Provenzano	Secretary, VP of Operations	200,000
	Total	660,000

With one exception, the options issued expire ten years from the date of grant (the option issued to Mr. Code expires five years from the date of grant).

During the six-month periods ended June 30, 2009 and 2010 we recorded an aggregate $439,202 and $483,667 in option compensation expense related to options issued pursuant to the 2007 Plan.

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Activity for our stock options under the 2007 Plan for the six-month period ended June 30, 2010 is as follows:

	Options Outstanding	Shares Available	Price per share	Weighted Average Price per share
Balances, December 31, 2009	1,667,135	4,332,865	$ 0.28 – $1.89	$ 0.75
Granted	940,000	(940,000)	$ 0.25 – 0.50	$ 0.56
Exercised	—	—	—	—
Canceled	—	—	—	—
Balances, June 30, 2010	2,607,135	3,392,865	$ 0.25 – $1.89	$ 0.68

The following table summarizes the stock options issued under the 2007 Equity Plan outstanding at June 30, 2010.

				Currently Exercisable	
Options Outstanding at June 30, 2010	Exercise Price	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares at June 30, 2010	Weighted Average Exercise Price
20,000	$ 0.40	8	$ 0.40	20,000	$ 0.40
605,000	$ 0.94 – 1.03	8	$ 0.97	105,000	$ 0.94
50,000	$ 1.89	8	$ 1.89	50,000	$ 1.89
110,000	$ 0.35 – 1.65	3	$ 1.04	110,000	$ 1.04
120,000	$ 0.28 - 0.50	8	$ 0.40	120,000	$ 0.40
20,000	$ 0.33	8	$ 0.33	20,000	$ 0.33
557,035	$ 0.50	3	$ 0.50	557,035	$ 0.50
155,100	$ 0.55	3	$ 0.55	155,100	$ 0.55
30,000	$ 0.57	4	$ 0.57	30,000	$ 0.57
20,000	$ 0.33	9	$ 0.33	20,000	$ 0.33
30,000	$ 0.45 – 0.50	9	$ 0.48	30,000	$ 0.48
200,000	$0.50	5	$0.50	200,000	$0.50
600,000	$0.50	10	$0.50	600,000	$0.50
50,000	$0.25 – 0.40	10	$0.35	50,000	$0.35

Stock Options Issued Outside the 2007 Equity Incentive Plan

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 six-month period ended June 30, 2010:

	Non plan Option	2007 Plan
Risk free interest rate	—%	0.25 – 3.85%
Expected volatility	—%	736 - 748%
Expected dividend yield	—	—
Forfeiture rate	—	—

Expected life in years	—	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 11. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included the following:

	December 31, 2009	June 30, 2010
Accounts payable and accrued expenses	$ 479,034	$ 752,307
Accrued interest	462,129	266,004
Officer and board of director payable	331,865	407,036
Total Accounts Payable and Accrued Expenses	$ 1,273,028	$ 1,425,347

Subsequent to June 30, 2010, we reduced a portion of the Accounts Payable and Accrued Expenses were paid through the issuance of either common stock or options to purchase common stock. (See Note 15.)

Accrued Interest

Accrued interest includes $150,000 of accrued and unpaid interest related to a note previously held by New Millennium Capital Partners, LLC (“New Millennium”), a related party. New Millennium agreed to extend the due date for the $150,000 accrued and unpaid interest to October 31, 2010. (See Note 13.) The remaining $116,004 of accrued and unpaid interest relates to outstanding convertible promissory notes issued by the Company pursuant to private securities offerings. (See Note 5.)

During the six-month periods ended June 30, 2009 and 2010, we recorded $138,172 and $191,077 of interest expense related to the convertible notes outstanding, respectively.

Officer and Board of Director payable

Officer and Board of Director payables were reduced as certain board members agreed to accept common stock as payment of an aggregate $80,000, of which $60,000 was outstanding as of December 31, 2009, and the balance of $20,000 related to expenses incurred in the six-month period ended June 30, 2010.

Note 12. Note Payable

On June 8, 2010, we received $100,000 and issued a promissory note with a maturity date of December 1, 2010, which accrued 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 and expire on June 3, 2013. (See Note 8.)

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.

For the six-month period ended June 30, 2010 we recorded $3,388 of interest expense related to these note payables.

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Note 13. Related Party Transactions

New Millennium

On April 13, 2007, New Millennium Capital Partners LLC ("New Millennium"), a limited liability company controlled and owned in part by the Company's CEO and president, Dennis P. Calvert, converted a promissory note (the "Note") in principal amount of $900,000 into 1,636,364 shares of our common stock, at a price of $0.55 per share, which was the last bid price on the date of conversion. Accrued but unpaid interest in the amount of $380,658 as of the conversion date of April 13, 2007 remained outstanding on the Note, which amount was due to be paid on January 15, 2008. We did not make such payment on such date. On November 12, 2008, we and New Millennium agreed to extend the date on which interest would be paid to April 30, 2009. On April 27, 2009, New Millennium agreed to accept as payment of $230,658 of the outstanding $380,658 in accrued but unpaid interest an option to purchase 691,974 shares of our common stock, exercisable at $0.55 cents per share. This option will expire April 24, 2012. New Millennium further agreed to extend the due date for the remaining $150,000 unpaid interest to April 30, 2010, which date has been further extended to October 31, 2010. (See Note 11.) Subsequent to June 30, 2010, this accrued interest was converted into common stock. (See Note 15.)

Note 14. Commitments and Contingencies

Litigation

We are not currently a party to any litigation.

Engagement of Charles K. Dargan, II as Chief Financial Officer

On February 1, 2010, we extended the engagement agreement dated February 1, 2008 (the "Engagement Agreement", which had been previously extended by one year by agreement dated February 23, 2009), pursuant to which Mr. Dargan served as the Company's Chief Financial Officer for a period of two years, and which expired January 31, 2010. The extension agreement dated as of February 1, 2010 (the "Engagement Extension Agreement") provides for an additional one-year term January 31, 2011 (the "Extended Term"). During the Extended Term, Mr. Dargan will continue to receive a fee of $4,000 per month, which amount will be increased to $8,000 or more in months during which the Company files its periodic reports with the Securities and Exchange Commission.

In addition to the cash compensation specified above, Mr. Dargan will be issued stock options over the Extended Term. Each option will allow Mr. Dargan to purchase 10,000 shares of the Company's common stock, and will be granted on the last business day of each month commencing February 2010 and ending January 2011, provided that the Engagement Extension Agreement with Mr. Dargan has not been terminated prior to each such grant date, at an exercise price equal to the closing price of a share of the Company's common stock on each grant date, each such option to be fully vested upon grant.

Note 15. Subsequent Events

Conversion of payables into stock or stock option

On August 4, 2010, in an effort to preserve our cash and reduce outstanding payables, the Board offered to third parties, officers and board members the opportunity to convert outstanding payable amounts into common stock ("Stock") or an option ("Option") to purchase common stock in lieu of cash payment. The Stock would be converted at

$0.30 per share, and Options may be exercised at $0.30 cents a share, would be issued pursuant to our 2007 Equity Incentive Plan, and would expire five years from the date of issuance. Our common stock closed trading at $0.23 a share on August 4, 2010.

As of the date of this Report, we were able to reduce our outstanding payables by an aggregate $875,013 by issuing an aggregate 1,554,604 shares of Stock, and issuing Options to purchase an aggregate 1,818,831 shares of our common stock.

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

Item 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:

- 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 liquidity and sufficiency of existing cash; and
- the success of our financing plans.

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, 2009. Unless otherwise expressly stated herein, all statements, including forward-looking statements, set forth in this Form 10-Q are as of June 30, 2010, 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.

The following discussion and analysis should be read in conjunction with our unaudited 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 performance with concerns about toxicity.

In addition to our BioLargo technology, in 2008 we acquired the rights to market an iodine based water disinfection system (the "Isan system") from Ioteq IP Pty. Ltd., an Australian company, and its U.S. affiliate Ioteq Inc. ("Ioteq"). The Isan system is an automated water disinfection system that substantially reduces the incidence of fungal growth, spoilage, organisms and pathogens in water and on food. Capable of treating high volumes of water flow, the Isan system is a combination of electrodes for measuring iodine levels in the target water stream, a control unit which automatically controls the running of the system, iodine canisters to deliver the iodine, and resin canisters to collect by-products after disinfection has been completed. The Isan system is registered with the APVMA (Australian Pesticides and Veterinary Medicines Authority) and FSANZ (Food Standards Australia and New Zealand) in Australia and New Zealand, where it has approximately 150 customer installations currently operating.

Both our BioLargo technology and the Isan system have potential commercial applications within global industries, including but not limited to agriculture, animal health, beach and soil environmental remediation, consumer products, food processing, medical, and water industries. While we believe the potential applications are many, we are currently focused in two primary areas – the development of certain products designed for the animal health industry, and agriculture.

First, in 2009, we launched our first products incorporating our BioLargo technology under the brand name "Odor-No-More", in the animal health industry. The primary benefits of the products are odor and moisture control, and customers using our animal bedding additive experience a net savings on total bedding costs. We have focused our efforts on building wholesale distribution, and in 2010, we intend to expand our marketing efforts into new industries, as well as continue evaluating new product opportunities within the same industry.

Second, we are actively seeking to secure strategic partners to either license or partner with to exploit commercial opportunities for CupriDyne™ and for the Isan system. In March 2010, we entered into a series of transactions whereby we licensed the Isan system technology from Ioteq, and then sublicensed the technology to a third party for commercialization in the United States in certain fields of use. We are still actively marketing the Isan system for opportunities outside the United States pursuant to our marketing agreement with Ioteq, and in the United States through an agency agreement with Isan USA. We continue research and product development for our CupriDyne™ technology, and continue to work with a number of global companies who are engaged in technology evaluation and testing processes. Simultaneously, we are also actively seeking to identify and negotiate regional or global partnerships to exploit commercial opportunities for both CupriDyne™ and the Isan technologies. No such regional or global partnerships have been formed at this time, and we can make no representation about our ability to successfully conclude such arrangements.

Results of Operations—Comparison of the three and six-month periods ended June 30, 2010 and 2009

We generated revenues of $91,525 during the six-month period ended June 30, 2010, as compared with no revenues during the six-month period ended June 30, 2009. During the six-month period ended June 30, 2010, we used cash in operations of $576,436, and incurred a net loss of $3,304,649. Of this amount, $2,006,452 consists of non-cash expenses related to the issuances of stock options, warrants and stock for services.

Revenue

We generated $80,792 and $91,525 in revenues from operations during the three and six-month periods ended June 30, 2010 and no revenues during the same periods for 2009. The revenues primarily consist of sales of our Odor-No-More products.

Selling, General and Administrative Expense

Selling, General and Administrative expenses were $803,048 and $2,391,535 for the three and six-month periods ended June 30, 2010, compared to $1,085,878 and $2,077,668 for the three and six-month periods ended June 30, 2009, a decrease of $282,830 and an increase of $313,867, respectively. The largest components of these expenses were:

a. Salaries and Payroll-related Expenses: These expenses were $285,288 and $1,109,211 for the three and six-month periods ended June 30, 2010, compared to $442,064 and $934,593 for the three and six-month periods ended June 30, 2009, a decrease of $156,776 and an increase of $174,618, respectively. The decrease in the three months is related to the end of the amortization of accrued option compensation expense for an option issued to our C.E.O. in 2007. The amortization ended in April 2010 compared to all three months of the quarter ended June 30, 2009. The increase in the six months is related to the non-cash stock option compensation expense issued to our officers and directors in February 2010.

b. Consulting Expenses: These expenses were $285,288 and $1,109,211 for the three and six-month periods ended June 30, 2010, compared to $272,484 and $548,547 for the three and six-month periods ended June 30, 2009, a decrease of $39,329 and an increase of $166,196. The decrease in the three months is related to a reduction of consultants. The increase is in the six-month period ended June 30, 2010 is primarily attributable to non-cash stock option compensation expense and stock issued for services to consultants..

c. Professional Fees: These expenses were $25,680 and $149,998 for the three and six-month periods ended June 30, 2010, compared to $67,729 and $153,924 for the three and six-month periods ended June 30, 2009, a decrease of $42,049 and $3,926, respectively. These decreases are due to a decreased need for professional services during 2009.

d. Other Expense: These expenses were $55,325 and $115,325 for the three and six-month periods ended June 30, 2010, compared to $60,000 and $110,000 for the three and six-month periods ended June 30, 2009, a decrease of $4,675 and an increase of $5,325, respectively. The expenses incurred in 2009 and 2010 were the result of the obligations pursuant to the Marketing Agreement with Ioteq.

Interest expense

Interest expense totaled $481,484 and $863,408 for the three and six-month periods ended June 30, 2010, compared to $471,280 and $874,806 for the three and six-month periods ended June 30, 2009, an increase of $10,204 and a decrease of $11,398. The three-month period increased due to the fair value amortization of our 2009 One Year warrants from June 1, 2010 to December 1, 2010. The six-month period decreased as we repriced warrants in the three-month period 2009 that resulted in additional fair value amortization which was offset by our increased convertible note payable which resulted in additional amortization of the fair value of warrants and additional interest expense related to the convertible note payables outstanding.

Amortization and depreciation expense

Amortization and depreciation expense totaled $2,391 and $4,782 for the three and six-month periods ended June 30, 2010, compared to $276,801 and $558,384 for the three and six-month periods ended June 30, 2009, a decrease of $276,801 and $553,602, respectively. The decrease is attributable to the impairment expense recorded December 31, 2009, related to our intangible assets which included Licensing rights and Assignment agreements acquired from IOWC in April 2007. Management performed its assessment of the fair value of the intangible assets for the year ended December 31, 2009. In our undertaking we analyzed the projected cash flow from the assets discounted at appropriate rates, the length of time to full development of the cash flow potential and the current recessionary state of the world-wide economy. We determined that after this detailed analysis that it was appropriate for us to record an impairment charge.

Research and Development

Research and development expenses were $28,347 and $71,492 for the three and six-month periods ended June 30, 2010, compared to $56,389 and $93,318 for the three and six-month periods ended June 30, 2009, a decrease of $28,042 and $21,826 related to a reduction of university studies and patent application and prosecutions as compared to 2009.

Net Loss

Net loss for the three and six-month periods ended June 30, 2010 was $1,290,896 and $3,304,649, a loss of $0.03 and $0.08 per share, compared to a net loss for the three and six-month periods ended June 30, 2009 of $1,894,196 and $3,602,612, a loss of $0.05 and $0.09 per share. The decrease in net loss for the three and six-month periods ended June 30, 2009 is primarily attributable to the non-cash amortization expense related to our intangible assets which were fully impaired as of December 31, 2009. This is offset from the non-cash option expense related to the issuance of options to the management team and common stock to consultants for services provided, recorded in 2010.

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 $55,769 at June 30, 2010. We had negative working capital of $2,531,869 for the six-month period ended June 30, 2010, compared with negative working capital of $3,020,231 for the six-month period ended June 30, 2009. We negative cash flow from operating activities of $576,831 six-month period ended June 30, 2010, compared to a negative cash flow from operating activities of $704,143 for the six-month period ended June 30, 2009. 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 financial statements accompanying this report have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of our business. As reflected in the accompanying financial statements, we had a net loss of $3,304,649 for the six-month period ended June 30, 2010, and an accumulated stockholders' deficit of $61,073,213 as of June 30, 2010. 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 its 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.

As of June 30, 2010 we had $2,885,285 aggregate principal amount, together with $116,004 accrued and unpaid interest, outstanding on various promissory notes. We may pay all of these amounts in cash or in stock, at our option, at maturity. In addition, as of June 30, 2010, we had $1,159,343 in accrued and unpaid payables (see Note 11) and $150,000 in accrued and unpaid interest to New Millennium Capital Partners, LLC, an entity controlled by Dennis P. Calvert, our President and Chief Executive Officer. (See Note 13 and 15.)

We continue to be limited in terms of our capital resources. During the six-month period ended June 30, 2010, we received gross and net proceeds of $517,250 pursuant to a private offering of our securities and a note payable. 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. To fully implement our business plan, we believe that we must raise up to an additional $10 million in financing. 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.

Obligation to New Millennium Capital Partners, LLC

On April 13, 2007, New Millennium Capital Partners LLC (“New Millennium”), a limited liability company controlled and owned in part by the Company’s CEO and president, Dennis P. Calvert, converted a promissory note (the “Note”) in principal amount of $900,000 into 1,636,364 shares of our common stock, at a price of $0.55 per share, which was the last bid price on the date of conversion. Accrued but unpaid interest in the amount of $380,658 as of the conversion date of April 13, 2007 remained outstanding on the Note, which amount was due to be paid on January 15, 2008. We did not make such payment on such date. On November 12, 2008, we and New Millennium agreed to extend the date on which interest would be paid to April 30, 2009. On April 27, 2009, New Millennium agreed to accept as payment of $230,658 of the outstanding $380,658 in accrued but unpaid interest an option to purchase 691,974 shares of our common stock, exercisable at $0.55 cents per share. This option will expire April 24, 2012. New Millennium further agreed to extend the due date for the remaining $150,000 unpaid interest to April 30, 2010, which date has been further extended to October 31, 2010. Subsequent to June 30, 2010, this accrued interest was converted into common stock. (See Note 15.)

2007 Equity Incentive Plan

On February 1, 2010, the Company’s Compensation Committee issued options and a restricted stock award pursuant to the Company’s 2007 Equity Incentive Plan to certain employees, outside consultants and professionals who had provided services to the Company during 2008 and 2009, consistent with management’s recommendations to the committee.

In total, options to purchase an aggregate 1,060,000 shares of the Company's common stock were issued, at an exercise price of $0.575 per share, which price was $0.075 more than the $0.50 closing price of the Company's common stock on the date of grant. Of the options issued, 400,000 were issued to third party consultants for their respective roles within the Company and the remaining 660,000 options were issued to the Company's principal executive officer, principal financial officer, and named executive officers, as set forth in the following table:

Name	Position	Number of Shares Underlying Options
Dennis P. Calvert	President and Chief Executive Officer	200,000
Charles K. Dargan II	Chief Financial Officer	60,000
Kenneth R. Code	Chief Technology Officer	200,000
Joseph L. Provenzano	Secretary, VP of Operations	200,000
	Total	660,000

With one exception, the options issued expire ten years from the date of grant (the option issued to Mr. Code expires five years from the date of grant).

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.

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

Only July 1, 2009, the Financial Accounting Standards Board (FASB) launched the FASB Accounting Standards Codification as the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification is effective for interim and annual periods ending after September 15, 2009. All existing accounting standards documents are superseded as described in FASB Statement No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. All other accounting literature not included in the Codification is nonauthoritative.

Other recent accounting pronouncements issued by Financial Accounting Statements Board (including its Emerging Issued Task Force), the American Institute of Certified Public Accountants 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.

ItemControls and Procedures
4.

(a) Evaluation of disclosure 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 but need improvement. Additionally, due to limited personnel and the resulting competing demands on our senior officers, at times there have been delays in disseminating information internally to those parties responsible for processing such information for disclosure. We have implemented certain further steps that we believe are warranted and believe, subject to our continuing evaluation and review of these further steps, that yet additional steps may also be warranted. We have adopted disclosure controls and procedures guidelines, however, additional steps that we believe that we must undertake are to retain a consulting firm to, among other things, design and implement adequate systems of accounting and financial statement disclosure controls during the current fiscal year to comply with the requirements of the SEC. We believe that the ultimate success of our plan to improve further our internal controls over financial reporting and disclosure controls and procedures will require a combination of additional financial resources, outside consulting services, legal advice, additional personnel, further reallocation of responsibility among various persons, improved lines of communication internally and substantial additional training of those of our officers, personnel and others, including certain of our directors such as our committee chairs, who are charged with implementing and/or carrying out our plan.

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

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

PART II

OTHER INFORMATION

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

Spring 2010 Offering

Pursuant to a private offering that commenced January 2010 (the "Spring 2010 Offering") and continued through June 30, 2010, we sold $417,250 of our 10% convertible notes (the "Spring 2010 Notes"), which are due and payable on April 15, 2013, to 16 investors, convertible into an aggregate 725,660 shares of our common stock. The Spring 2010 Notes are convertible into shares of our common stock at an initial conversion price of $0.575 per share. The Spring 2010 Notes can be converted voluntarily by the noteholders at any time prior to the maturity date. We can unilaterally convert the Spring 2010 Notes (i) on or after July 31, 2010, if we have received one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least $3 million gross proceeds of equity or debt; or (ii) on the maturity date. Accordingly, the Spring 2010 Notes may be repaid in cash or may be converted, at our sole option, into shares of our common stock, on or before the April 15, 2013maturity 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") is exercisable at a price of $0.75 per share and expires 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 8.)

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

Item 6. Exhibits

The exhibits listed below are attached hereto and filed herewith:

Exhibit No.	Description
31.1	Certification of Chief Executive Officer of Quarterly Report Pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e).
31.2	Certification of Chief Financial Officer of Quarterly Report Pursuant to 18 U.S.C. Section 1350
32	Certification of Chief Executive Officer and Chief Financial Officer of Quarterly Report pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e).

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

	BIOLARGO, INC.	
Date: August 16, 2010	By:	/s/ DENNIS P. CALVERT Dennis P. Calvert Chief Executive Officer

EXHIBIT INDEX

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).