BIOLARGO, INC.
Form 10-Q
May 15, 2014

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, 2014.

or

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

For the transition period from ______ to ______

Commission File Number 000-19709

BIOLARGO, INC.

(Exact name of registrant as specified in its charter)

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

3500 W. Garry Avenue

Santa Ana, California 92704

(Address, including zip code, of principal executive offices)

(949) 643-9540

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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. 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 13, 2014 was 79,838,488 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, 2013 AND MARCH 31, 2014

	December 31, 2013	March 31, 2014 (unaudited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$92,437	$363,373
Accounts receivable, net of allowance	3,929	4,387
Prepaid assets	—	45,000
Inventory	29,830	33,699
Total current assets	126,196	446,459
OTHER ASSETS, net of amortization	40,997	38,267
TOTAL ASSETS	$167,193	$484,726
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$407,157	$358,652
Note payable	325,000	50,000
Customer deposit	—	100,000
Total Current Liabilities	732,157	508,652
TOTAL LIABILITIES	732,157	508,652
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, 2013 and March 31, 2014.	—	—
Common Stock, $.00067 Par Value, 200,000,000 Shares Authorized, 75,123,014 and 79,838,488 Shares Issued and Outstanding, at December 31, 2013 and March 31, 2014.	50,069	53,233
Additional Paid-In Capital	74,849,492	76,410,436
Noncontrolling interest	(136,922)	(140,606)
Accumulated Deficit	(75,327,603)	(76,346,989)
Total Stockholders’ Equity (Deficit)	(564,964)	(23,926)
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY (DEFICIT)	$167,193	$484,726

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, 2013 AND 2014

	For the three-month periods ended March 31, 2013	2014
Revenue	$14,363	$9,287
Cost of goods sold	6,198	2,530
Gross Margin	8,165	6,757
Costs and expenses		
Selling, general and administrative	529,069	607,366
Research and development	119,163	163,605
Amortization and depreciation	2,730	2,730
Total costs and expenses	650,962	773,701
Loss from operations	(642,797)	(766,944)
Interest expense	(2,500)	(306,126)
Net loss	$(645,297)	$(1,073,070)
Net loss from our controlling interests	—	(1,019,386)
Net loss from our noncontrolling interests	—	(53,684)
Loss per per common share – basic and diluted	$(0.01)	$(0.01)
Weighted average common share equivalents outstanding	71,357,532	76,409,578

See accompanying notes to unaudited condensed consolidated financial statements

BIOLARGO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014

	Common Stock Number of Shares	Par Value $.00067	Additional Paid-In Capital	Accumulated Deficit	Noncontrolling Interest	Total
BALANCE DECEMBER 31, 2013	75,123,014	$50,069	$74,849,492	$(75,327,603)	(136,922)	$(564,964)
Issuance of stock for cash received as part of Summer 2013 PPM @ $0.25	3,110,000	2,088	775,412	—	—	777,500
Fees for Summer 2013 PPM	—	—	(47,100)	—	—	(47,100)
Cash received from Clyra Winter 2013 PPM	—	—	—	—	50,000	50,000
Issuance of stock to convert Note Payables and related accrued interest	1,360,000	991	583,889	—	—	584,800
Issuance of stock for services to consultants	161,980	109	56,186	—	—	56,295
Issuance of options to purchase common stock for services to consultants	—	—	66,750	—	—	66,750
Issuance of stock for accrued and unpaid obligations to officers	83,494	56	35,846	—	—	35,902
Issuance of options to purchase common stock for services to board of directors & officers	—	—	89,961	—	—	89,961
Net loss for the three-month period ended March 31, 2014	—	—	—	(1,019,386)	(53,684)	(1,073,070)
BALANCE MARCH 31, 2014	79,838,488	$53,233	$76,410,436	$(76,346,989)	(140,606)	$(23,926)

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, 2013 AND 2014

(unaudited)

	For the three-month periods ended March 31,	
	2013	**2014**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$(645,297)	$(1,073,070)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Non-cash expense related to options issued to our board of directors	—	89,961
Non-cash expense related to stock issued to an officer	—	10,720
Non-cash expense related to options issued to consultants	38,400	66,750
Non-cash expense related to stock issued to consultants	—	48,225
Non-cash expense related to stock issued for interest related to the conversion of our Note Payables	—	291,574
Amortization expense	2,730	2,730
Increase (decrease) in cash from change in:		
Accounts receivable	3,166	(458)
Inventory	1,927	(3,869)
Prepaid expenses	—	(45,000)
Customer deposits	—	100,000
Accounts payable and accrued expenses	144,073	(44,127)
Deferred revenue	(10,229)	—
Net Cash Used In Operating Activities	(465,230)	(556,564)
CASH FLOWS FROM INVESTING ACTIVITIES	—	—
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of stock	405,000	827,500
Net Cash Provided By Financing Activities	405,000	827,500
NET INCREASE IN CASH AND CASH EQUIVALENTS	60,230	270,936
CASH AND CASH EQUIVALENTS — BEGINNING	151,189	92,437
CASH AND CASH EQUIVALENTS — ENDING	$90,959	$363,373

SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION

Cash Paid During the Period for:		
Interest	$—	$—
Taxes	$—	$400
SUPPLEMENTAL DISCLOSURES OF NON-CASH OPERATING ACTIVITIES:		
Conversion of accrued expenses to shares of common stock:		
Consultant obligations	$10,530	$56,295
Officer	$—	$35,902
Option issued to purchase shares of common stock:		
Consultant obligations	$—	$33,750
Board of directors obligations	$—	$67,461
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Conversion of Note Payable holders' and related accrued interest to shares of our common stock:	$—	$584,800
Fees for Summer 2013 Private Securities Offering	—	47,100

See accompanying notes to unaudited condensed consolidated financial statements

BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Business and Organization

Outlook

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of our business. As reflected in the accompanying financial statements, we had a net loss of $1,073,070 for the three-month period ended March 31, 2014, and at March 31, 2014, we had negative working capital of $62,193, current assets of $446,459, and an accumulated stockholders' deficit of $76,346,989. The foregoing factors raise substantial doubt about our ability to continue as a going concern. Ultimately, our ability to continue as a going concern is dependent upon our ability to attract significant new sources of capital, attain a reasonable threshold of operating efficiencies and achieve profitable operations by licensing or otherwise commercializing products incorporating our technology. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

We have been, and anticipate that we will continue to be, limited in terms of our capital resources. Our total cash and cash equivalents were $363,373 at March 31, 2014. We generated revenues of $9,287 in the three-month period ended March 31, 2014, 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, 2014, we had $50,000 principal amount outstanding on a note payable (see Note 10), and $358,652 of outstanding accounts payable. (See Note 9.)

During the three-month period ended March 31, 2014, we received $827,500 gross proceeds pursuant to our private securities offerings of BioLargo and Clyra. (See Note 4.)

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. For some of our activities, 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, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014, 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, 2013 filed with the Securities and Exchange Commission (the "SEC") on April 1, 2014.

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, 2013	**March 31, 2014**
Raw materials	$ 26,080	$ 29,949
Finished goods (see Note 4)	3,750	3,750
Total inventory	$ 29,830	$ 33,699

Other Assets

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

For the three-month periods ended March 31, 2013 and 2014 we recorded amortization expense totaling $2,730 and $2,730, respectively.

We review intangible assets for potential impairment 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. No impairment has been recorded for the period ended March 31, 2014.

Use of Estimates

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

Share-based Payments

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

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

During the three-month periods ended March 31, 2013 and 2014 we recorded an aggregate $19,400 and $0 in selling general and administrative expense related to options issued pursuant to the 2007 Plan.

During the three-month periods ended March 31, 2013 and 2014 we recorded an aggregate $19,000 and $156,711 in selling general and administrative expense related to options issued outside of the 2007 Plan.

During the three-month period ended March 31, 2014 we issued an aggregate 83,493 shares of our common stock to our Secretary in lieu of accrued and unpaid compensation and unreimbursed expenses totaling $35,902. (See Note 9).

BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

During the three-month periods ended March 31, 2013 and 2014 we issued an aggregate 42,092 and 161,980 shares of our common stock to third party vendors in lieu of accrued and unpaid compensation and unreimbursed expenses totaling $10,530 and $56,295, respectively. (See Note 9).

During the three-month period ended March 31, 2014 we issued an aggregate 3,110,000 shares of our common stock and received $777,500 as part of our Summer 2013 PPM. (See Note 4).

During the three-month period ended March 31, 2014 we issued an aggregate 50 shares of Clyra common stock and received $50,000 as part of our Clyra Spring 2014 PPM. (See Note 4).

On March 28, 2014, we issued an aggregate 1,360,000 shares of our common stock to note payable holders in lieu of the note payable principal balance and related accrued interest. (See Note 5).

Non-Cash Transactions

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

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

Revenue Recognition

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

Earnings (Loss) Per Share

We report basic and diluted earnings (loss) per share ("EPS") for common and common share equivalents. Basic EPS is computed by dividing reported earnings by the weighted average shares outstanding. Diluted EPS is computed by adding to the weighted average shares the dilutive effect if stock options and warrants were exercised into common stock. For the three-month periods ended March 31, 2013 and 2014, the denominator in the diluted EPS computation is the same as the denominator for basic EPS due to the anti-dilutive effect of the warrants and stock options on the Company's net loss.

Recent Accounting Pronouncements

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

Note 3. Customer Deposit

In 2012, we executed a joint venture agreement with Peter Holdings Ltd., the principal funding source of the development of the Isan system, whereby we jointly purchased the intellectual property associated with the Isan system. In February 2014 we received a deposit of $100,000 towards a worldwide, exclusive license of the Isan System. We have agreed to provide all technical and engineering specifications, three assembled and operating Isan units, all patent and other intellectual property, and other items related to the Isan operations in Australia and New Zealand. In addition to a $100,000 advanced royalty payment, the licensee has agreed to pay 10% of sales as a royalty, $50,000 minimum per quarter beginning in year 3, a patent maintenance fee of $25,000 annually, paid quarterly in arrears. Final documents are being drafted.

BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 4. Private Securities Offerings

Summer 2013 Private Securities Offering

Pursuant to a private offering of our common stock at a price of $0.25 per share that commenced June 2013, through its expiration on March 31, 2014, we sold 3,370,000 shares of our common stock to 23 accredited investors and received $842,500 gross and $837,000 net cash proceeds from the sales. In addition, we received a subscription agreement for $20,000 through an individual retirement account, the funds for which had not been received by March 31, 2014. Of the aggregate 3,370,000 shares sold in the offering, for the three-month period ended March 31, 2104, we sold 3,110,000 shares of our common stock and received $777,500 gross proceeds from the sales. Fees related to this offering consisted of $5,500 cash payments, and an additional $47,100 in fees are due in shares of our common stock.

Each purchaser of stock will receive, for no additional consideration, a stock purchase warrant which entitles the holder to purchase a number of additional shares of our common stock equal to the number of shares originally purchased. The warrant is exercisable at $0.30 per share, will expire on December 31, 2016, and is subject to a call provision in the event BioLargo's common stock price reaches $0.60 per share over a period of 40 days.

Clyra Spring 2014 Private Securities Offering

On February 1, 2014, our subsidiary Clyra (see Note 11) began a private securities offering, selling up to 1,000 shares of its common stock at $1,000 per share. On March 14, 2014, Clyra sold 50 shares of its common stock to one accredited investor and received $50,000 gross and net proceeds from the sale.

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

Winter 2013 Private Securities Offering

Pursuant to a private offering of our common stock at a price of $0.30 per share that commenced January 2013, through its expiration on June 14, 2013, we sold 2,333,329 shares of our common stock to 13 accredited investors and received $700,000 gross and $633,000 net proceeds from the sales.

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

Clyra Winter 2012 Private Securities Offering

On December 17, 2012, our subsidiary Clyra (see Note 11) began a private securities offering, selling up to 1,000 shares of its common stock at $1,000 per share. The offering ended December 31, 2013 and Clyra sold an aggregate 240 shares of its common stock to four accredited investors and received $240,000 gross and $236,000 net proceeds from the sale.

In April 2013, Clyra modified the terms of its offering, such that, in addition to shares of Clyra common stock, each Clyra investor would receive a warrant ("Clyra 2012 Warrants") to purchase an additional number of shares of Clyra common stock as originally purchased by the investor, at a price of $1,833 per share, until July 30, 2015. The offering terms were also modified to increase the number of shares of BioLargo common stock into which the Clyra investor could convert his or her Clyra shares, from 2,858 to 3,333 and 1/3 shares of BioLargo common stock. The date until which the investor may tender Clyra shares to BioLargo for conversion was extended to July 30, 2015. The Clyra investors will not receive any further warrants to purchase additional BioLargo common stock.

Note 5.   Conversion of Notes

On March 26, 2014, we issued an aggregate 1,360,000 shares of our common stock, at a conversion price of $0.25, as payment for $275,000 of Note Payable and $65,000 of accrued and unpaid interest expense. Our stock price on the date of issuance was $0.43 per share, resulting in an additional fair value of $244,800 which was recorded as interest expense. The Note Payables included in this conversion, dated June 8, 2010, October 28, 2013, and November 15, 2013, are discussed immediately below.

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. The maturity date of the note was extended to December 3, 2011, to December 3, 2012, and again to January 14, 2015.

On December 28, 2012, the note holder agreed to extend the maturity date of the note by a period of one year to December 31, 2013. As consideration for the extension, we issued the noteholder 60,000 shares of our common stock at $0.25 per share and recorded $15,000 in interest expense, and a warrant to purchase 50,000 shares of common stock at $0.50 cents per share, exercisable until June 3, 2014. The fair value of this warrant totaled $6,805 and was recorded as interest expense.

On December 31, 2013, the note holder agreed to extend the maturity date of the note January 14, 2015. As consideration for the extension, we issued the noteholder 60,000 shares of our common stock at $0.25 per share and recorded $15,000 in interest expense, and a warrant to purchase 60,000 shares of common stock at $0.30 cents per share, exercisable until January 14, 2017. The fair value of this warrant totaled $14,412 and was recorded as interest expense. (See Note 6.)

On November 15, 2013, we received $100,000 and issued a promissory note with a maturity date of November 30, 2014, which accrues interest at a rate of 10%.

On October 28, 2013, we received $75,000 and issued a promissory note with a maturity date of October 31, 2014, which accrues interest at a rate of 10%.

For the three-month period ended March 31, 2013 and 2014 we recorded interest expense of $2,500 and $58,088, respectively related to these converted notes.

Note 6. 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, 2012	8,390,741	0.125	–	1.00
Issued	1,366,664		$0.55	
Exercised	—		$—	
Expired	(1,225,898)		$1.00	
Outstanding as of March 31, 2013	8,531,507	0.125	–	1.00

	Number of Shares	Price Range		
Outstanding as of December 31, 2013	10,618,771	0.125	–	1.00
Issued	3,276,667		$0.30	
Exercised	—		$—	
Expired	(3,506,306)	0.5	–	1.00
Outstanding as of March 31, 2014	10,389,132	0.125	–	1.00

BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The fair value of each award grant is estimated on the date of grant using the Black-Scholes option-pricing model. 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:

	2013	**2014**
Risk free interest rate	— %	.11 %
Expected volatility	— %	171 %
Expected dividend yield	—	—
Forfeiture rate	—	—
Expected life in years	2.5	.5

The risk-free interest rate is based on U.S Treasury yields in effect at the time of grant. Expected volatilities are based on historical volatility of our common stock.

No warrants were issued in conjunction with debt or as compensation during the three-month period ended March 31, 2013 and 2014, as such there is no corresponding expense related to the warrants issued.

Summer 2013 Warrants

Pursuant to the terms of our Summer 2013 Offering (see Note 4), since inception in June 2013 through its termination on March 31, 2014, we issued warrants to purchase up to an aggregate 3,370,000 shares of our common stock to the investors in the Summer 2013 Offering at an exercise price of $0.30 per share. Of this amount, we issued warrants to purchase up to an aggregate 3,110,000 shares of our common stock during the three-month period ended March 31, 2014. These warrants are set to expire October 15, 2015.

Clyra 2014 Warrants

Pursuant to the terms of the Clyra 2014 Spring Offering (see Note 4), during the three-month period ended March 31, 2014, we issued warrants to purchase up to an aggregate 166,667 shares of our common stock to the investors in the Clyra 2014 Spring Offering at an exercise price of $0.55. These warrants are set to expire July 30, 2015.

Clyra 2012 Warrants

In April 2013, Clyra modified the terms of its offering, such that, in addition to shares of Clyra common stock, each Clyra investor would receive a warrant (“Clyra 2012 Warrants”) to purchase an additional number of shares of Clyra common stock as originally purchased by the investor, at a price of $1,833 per share, until July 30, 2015. The offering terms were also modified to increase the number of shares of BioLargo common stock into which the Clyra investor could convert his or her Clyra shares, from 2,858 to 3,333 and 1/3 shares of BioLargo common stock. We have issued warrants to purchase up to an aggregate 799,999 shares of our common stock to the investors in the Clyra Winter 2012 private securities offering. (See Note 4). The date until which the investor may tender Clyra shares to BioLargo for conversion was extended to July 30, 2015.

Winter 2013 Warrants

Pursuant to the terms of our Winter 2013 Offering (see Note 4), during the three-month period ended March 31, 2013, we issued warrants to purchase up to an aggregate 1,366,664 shares of our common stock to the investors in the Offering at an exercise price of $0.55 per share. These warrants are set to expire June 15, 2015.

BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 7. 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, 2013 and March 31, 2014 there were no outstanding shares of our preferred stock.

Common Stock

As of December 31, 2013 and March 31, 2014 there were 75,123,014 and 79,838,488 shares of common stock outstanding, respectively. The increase in shares during the three-month period ended March 31, 2014 is comprised of the following stock issuances: (i) 3,110,000 shares of our common stock issued to investors in our Summer 2013 Offering, (ii) 1,360,000 shares as of our common stock to convert Note Payables, (iii) 161,980 shares of our common stock to third-party vendors for services performed, and (iv) 83,494 shares of our common stock to officers in payment to consultants in lieu of accrued and unpaid obligations.

Note 8. Stock-Based Compensation and Other Employee Benefit Plans

2007 Equity Incentive Plan

There were no options issued as part of the 2007 Equity Incentive Plan.

Activity for our stock options under the 2007 Plan for the three-month periods ended March 31, 2013 and 2014 is as follows:

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

As of March 31, 2014:	Options Outstanding	Shares Available	Exercise Price per share		Weighted Average Price per share
Balances as of December 31, 2013	8,561,086	4,420,742	$0.23	– 1.89	$0.44
Granted	—	—		—	—
Exercised	—	—		—	—
Canceled	—	—		—	—
Balances as of March 31, 2014	8,561,086	4,420,742	$0.23	– 1.89	$0.44

<u>Options issued Outside of the 2007 Equity Incentive Plan</u>

During the three-month periods ended March 31, 2013 and 2014 we recorded an aggregate $19,000 and $156,711 in selling general and administrative expense related to options issued outside of the 2007 Plan.

On March 31, 2014, we issued Options to purchase 156,888 shares of our common stock at an exercise price of $0.43 per share to our board of directors, in lieu of $45,000 in accrued and unpaid fees. The fair value of the Options totaled $67,461, resulting in $22,461 of additional selling, general and administrative expenses.

BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

On March 31, 2014, we issued Options to purchase 78,488 shares of our common stock at an exercise price of $0.43 per share to a vendor, in lieu of $22,500 in accrued and unpaid fees. The fair value of the Options totaled $33,750, resulting in $11,250 of additional selling, general and administrative expenses.

Activity of our stock options issued outside of the 2007 Plan for the three-month periods ended March 31, 2013 and 2014 is as follows:

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

As of March 31, 2014:	Options Outstanding	Exercise Price per share			Weighted Average Price per share
Balances as of December 31, 2013	16,398,395	$0.18	–	1.00	$ 0.39
Granted	235,376	$	0.43		$ 0.43
Exercised	—		—		—
Canceled	—		—		—
Balances as of March 31, 2014	16,633,771	$0.18	–	1.00	$ 0.39

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:

	2013		2014	
	Non Plan	**2007 Plan**	**Non Plan**	**2007 Plan**
Risk free interest rate	—	—	2.73 %	—
Expected volatility	—	—	935 %	—
Expected dividend yield	—	—	—	—
Forfeiture rate	—	—	—	—
Expected life in years	—	—	7	—

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

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

BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

We recognize compensation expense for stock option awards on a straight-line basis over the applicable service period of the award, which is the vesting period. Share-based compensation expense is based on the grant date fair value estimated using the Black-Scholes Option Pricing Model. 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 9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included the following:

	December 31, 2013	**March 31, 2014**
Accounts payable and accrued expenses	$ 362,194	$ 320,841
Accrued interest	18,226	8,716
Officer and Board of Director Payables	26,737	29,095
Total Accounts Payable and Accrued Expenses	$ 407,157	$ 358,652

Payment of Consultant Fees

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

During the three month period, 2014 we issued an aggregate 73,444 shares of our common stock to two vendors and per the terms of the agreement, at an average conversion price of $0.25, as payment for services totaling $18,225.

On March 28, 2014 we issued an aggregate 88,537 shares of our common stock to two vendors, at a conversion price of $0.43, as payment for services totaling $38,070.

See also Note 8 for information on options issued to consultants and board of directors in lieu of accounts payable obligations.

Payment of Officer Salary

On March 28, 2014 we issued an aggregate 83,493 shares of our common stock to our Secretary, at a conversion price of $0.43, as payment for accrued and unpaid compensation totaling $35,902.

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 10. Notes Payable

On November 19, 2013, we received $50,000 pursuant to a line of credit whereby we have pledged our inventory and accounts receivable as collateral. The maturity date of the line of credit is May 15, 2015, which accrues interest at a rate of 24%.

For the three-month period ended March 31, 2013 and 2014 we recorded interest expense of $0 and $3,240, respectively.

BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 11. Noncontrolling Interest

In May 2012, we formed a subsidiary for the purpose of marketing and selling medical products containing our technology, Clyra Medical Technology, Inc. ("Clyra"). Until December 17, 2012, this subsidiary was wholly owned, with 7,500 shares issued to BioLargo, Inc. On December 17, 2012, Clyra signed executive employment agreements with three individuals, in which each was granted 500 shares of Clyra common stock, one-third of which vested immediately, and the remaining over time. The shares granted to the three executives are restricted from transfer until a sale of the company, whether by means of a sale of its stock or substantially all of its assets, or otherwise by agreement of Clyra, BioLargo and the executives.

Clyra has raised $236,000 in proceeds through issuing 240 shares of its common stock during the year ended December 31, 2013 and raised an additional $50,000 in proceeds through issuing 50 shares of its common stock during the three-month period ended March 31, 2014. See Note 4. The holdings of the executive officers and investors represent 19.3% of the issued and outstanding stock of the company.

From inception, there have been no revenues and the financial impact of Clyra's operations for the three-month period ended March 31, 2014, resulted in a net loss of $53,684. The financial impact of Clyra's operations for the three-month period ended March 31, 2013 were de minimus as it relates to our noncontrolling interest.

Note 13. Subsequent Events.

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

On May 7, 2014, an investor in the Summer 2013 Offering (see Note 4) exercised his rights under the stock purchase warrant and purchased 200,000 shares for $0.30 a share.

On May 7, 2014, our subsidiary Clyra received a $50,000 investment in its private securities offering, and issued 50 shares of its common stock, and a warrant to purchase an additional 50 shares.

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, 2013. Unless otherwise expressly stated herein, all statements, including forward-looking statements, set forth in this Form 10-Q are as of March 31, 2014, 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, BioLargo Water, Inc. of California and its subsidiary BioLargo Water, Inc. of Canada, and its partially owned subsidiary Clyra Medical Technologies, Inc.

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

Overview

By leveraging our suite of patented and patent-pending intellectual property, which we refer to as the “BioLargo Technology”, our business strategy is to harness and deliver nature’s best disinfectant – iodine – in a safe, efficient, environmentally sensitive and cost-effective manner. The core of this innovative technology is the accurate and safe delivery of iodine in a wide range of forms, moieties and conditions. Iodine is an essential nutrient and all natural broad-spectrum disinfectant with no known microbial resistance. When used effectively, it can keep people and the world safer from disease and infection, and can be engaged as a powerful oxidant and catalyst to keep our water, earth, and air clean, safe, and healthy. Our goal is to target our capabilities to create and utilize iodine to improve the quality of life for people worldwide, to protect the environment, all while producing positive economic results for our customers, partners, and shareholders.

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

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

<u>Water Treatment</u>

We have developed and are further refining a technology for water treatment called the BioLargo AOS Filter, an advanced oxidation system, which we believe represents a technical breakthrough in water purification. While we expect our patent-protected technology will impact a number of major water industry segments, our initial focus is in processed water from oil operations, including the Canadian Athabasca Oil Sands.

The proof-of-claim work recently completed at the University of Alberta verifies that our AOS technology can be highly effective in addressing the issues of oil sands processed water. We have been able to show performance results (dismantling contaminants from a flow of water) at an efficiency level that has never before been seen commercially.

As a result of the validation and support expressed for the project by the University of Alberta, researchers and funding agencies, a new $5+ million pilot study is scheduled to begin in 2014. The University is tasked to engineer the solution to work on the large scale required for these tailing ponds in preparation for commercialization. The lead researcher from the University, Mohamed Gamal El-Din, Ph.D., P.E., will lead the pilot study. We are working with the Dr. Gamal El-Din on funding from government and private sources. We expect to execute a formal research contract for the pilot project in the near future. Bench-scale pilot testing of the AOS Filter will continue while documents and funding are finalized. In the first quarter of 2014, we formed a Canadian entity as a subsidiary of our U.S. based BioLargo Water, Inc. subsidiary. Our Canadian subsidiary opened an office on the University of Alberta campus, and appointed Richard Smith, Ph.D., to serve as President. Dr. Smith received an MSc in Veterinary Microbiology and a PhD in Viral Immunopathology from the University of Saskatchewan and he completed a post–doctoral fellowship in the Department of Medical Microbiology and Immunology at the University of Alberta. Dr. Smith has over 10 years of experience in the industry working with several Biotech Companies in Alberta, including ChemBioMed and VirRexx. In 2003, Dr. Smith joined the University of Alberta as Co–ordinator, Research Development & Industry Relations for the Department of Agricultural, Food and Nutritional Science (AFNS) where he assisted academics with research development and program funding. Dr. Smith was actively involved with the many facets of major grants, including NSERC, CRC and CFI applications.

Commercial, Household and Personal Care Products

CHAPP includes broad product categories and many opportunities for the application of our technology. It is defined by the ability to utilize similar, if not identical, consumption products in multiple market segments. Detergents, single use absorbents, wipes, products that provide odor or disinfection control, and stain removal all fall within this category. Packaging ranges from consumer sizes of a few ounces to bulk packaging for commercial or industrial use. We are currently marketing products in this category under four brands – Odor-No-More, Nature's Best Solution, Deodorall, and NBS - direct to consumers, through retail stores, and most recently, to the U.S. Government.

Our sales in the CHAPP product category to-date are nominal. Product development, sales, and marketing require significant financial resources that we currently do not have. As such, our progress in this area has been slower than we had hoped. We are actively marketing the technology for licensure to established companies in this industry segment.

Advanced Wound Care – Clyra Medical Technologies Subsidiary

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

In 2012 Clyra entered into a strategic supply agreement with Formulated Solutions, a state-of-the-art FDA registered drug and device manufacturing company in Florida, to conclude development and testing, and apply for FDA 510(k), approval for its first two products to be sold into the advanced wound care industry. While no assurances can be made about the ultimate success of such applications, given the forward looking nature of such events, Clyra has retained and engaged a team of experts in the area to guide it through the process. The product development process has been more time consuming than originally anticipated, and our limited financial resources have impacted our ability to complete the process. Given the timing of the FDA process, and the requirement for approval before product can be sold, we do not anticipate product sales until 2015. In the interim, we will continue to seek licensing partners, secure additional and dedicated capital resources for Clyra, and refine our product roll out, marketing, and distribution plans.

Results of Operations—Comparison of the three-month periods ended March 31, 2014 and 2013

Revenue

We generated $9,287 in revenues during the three-month period ended March 31, 2014, and $14,363 in revenues during the three-month period ended March 31, 2013. Our revenue in the three-month period ended March 31, 2014, consisted primarily of sales to the US Military. The revenue for the three-month period ended March 31, 2013, consisted primarily of sales of our Odor-No-More branded products and Deodorall branded sports equipment.

Cost of Goods Sold

Our cost of goods sold was $2,530 or 27% of revenues for the three-month period ended March 31, 2014, as compared with $6,198, or 43% of revenues for the three-month period ended March 31, 2013. Our cost of goods sold includes costs of raw materials, contract manufacturing, and proportions of salaries and expenses related to the sales and marketing efforts of our Odor-No-More branded products. Because we have not achieved a meaningful revenue base, and our number of products is increasing, the inclusion of the fixed costs related to the product development and manufacturing increases our cost of goods disproportionately, resulting in high percentage fluctuations.

Selling, General and Administrative Expense

Selling, General and Administrative expenses were $607,366 for the three-month period ended March 31, 2014, compared to $529,069 for the three-month period ended March 31, 2013, an increase of $78,297. The largest components of these expenses were:

a. Salaries and Payroll-related Expenses: These expenses were $144,324 for the three-month period ended March 31, 2014, compared to $115,620 for the three-month period ended March 31, 2013, an increase of $28,704 due to the fair value of the vested options in 2014 and no such expense in 2013.

b. Consulting Expenses: These expenses were $140,411 for the three-month period ended March 31, 2014, compared to $191,131 for the three-month period ended March 31, 2013, a decrease of $50,720. The decrease is primarily attributable to a reduced amount of consultants used in March 31, 2014 versus 2013.

c. Professional Fees: These expenses were $89,282 for the three-month period ended March 31, 2014, compared to $75,325 for the three-month period ended March 31, 2013, an increase of $13,957. This increase is consistent with our usage of professionals for accounting and legal costs associated with our operations.

Research and Development

Research and development expenses were $163,605 for the three-month period ended March 31, 2014, compared to $119,163 for the three-month period ended March 31, 2013, an increase of $44,442. The increase is related to product research and product development and testing related to our increased development of the AOS filter in our water business.

Interest expense

Interest expense totaled $306,126 for the three-month period ended March 31, 2014, compared to $2,500 for the three-month period ended March 31, 2013, an increase of $303,624. The increase is primarily due to the additional expense recorded related to the conversion of our Note Payables.

Net Loss

Net loss for the three-month period ended March 31, 2014 was $1,073,070, a loss of $0.01 per share, compared to a net loss for the three-month period ended March 31, 2013 of $645,297, a loss of $0.01 per share. The increase is primarily due to the additional expense related to the conversion of our notes payable and accrued interest, additional expense related to options issued to consultants and an increase in research and development expense.

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 $363,373 at March 31, 2014. We had negative working capital of $62,193 as of March 31, 2014, compared with negative working capital of $530,226 as of March 31, 2013. We had negative cash flow from operating activities of $556,564 for the three-month period ended March 31, 2014, compared to a negative cash flow from operating activities of $465,230 for the three-month period ended March 31, 2013. We used cash from financing activities to fund operations. Our cash position is insufficient to meet our continuing anticipated expenses or fund anticipated operating expenses. Accordingly, we will be required to raise significant additional capital to sustain operations and further implement our business plan and we may be compelled to reduce or curtail certain activities to preserve cash.

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of our business. As reflected in the accompanying financial statements, we had a net loss of $1,073,070 for the three-month period ended March 31, 2014, and an accumulated stockholders’ deficit of $76,346,989 as of March 31, 2014. 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, 2014, we had $50,000 principal amount outstanding on a note payable (see Note 10), and $358,652 of outstanding accounts payable. (See Note 9.)

During the three-month period ended March 31, 2014, we received an aggregate $827,500 net proceeds pursuant to our private securities offerings for BioLargo and Clyra. (See Note 4.)

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.

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

Recent Accounting Pronouncements

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

Inflation

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

Item 4. Controls and Procedures

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

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

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

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

PART II

OTHER INFORMATION

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

Conclusion of "Summer 2013" Private Securities Offering

Pursuant to a private offering of our common stock at a price of $0.25 per share that commenced June 2013, through its expiration on March 31, 2014, we sold 3,370,000 shares of our common stock to 17 accredited investors and received $842,500 gross and $837,000 net cash proceeds from the sales. In addition, we received a subscription agreement for $20,000 through an individual retirement account, the funds for which had not been received by March 31, 2014. For the three-month period ended March 31, 2104, we sold 3,110,000 shares of our common stock to 15 accredited investors and received $777,500 gross proceeds from the sales. Fees related to this offering consisted of $5,500 cash payments, and an additional $47,100 in fees are due in shares of our common stock.

Each purchaser of stock will receive, for no additional consideration, a stock purchase warrant which entitles the holder to purchase a number of additional shares of our common stock equal to the number of shares originally purchased. The warrant is exercisable at $0.30 per share, will expire on December 31, 2016, and is subject to a call provision in the event BioLargo's common stock price reaches $0.60 per share over a period of 40 days.

Stock Issued for Services

During the three-month period ended March 31, 2014 we issued an aggregate 83,493 shares of our common stock to our Secretary in lieu of accrued and unpaid compensation and unreimbursed expenses totaling $35,902.

During the three-month period ended March 31, 2013 and 2014 we issued an aggregate 42,092 and 161,980 shares of our common stock to third party vendors in lieu of accrued and unpaid compensation and unreimbursed expenses totaling $10,530 and $56,295, respectively.

Stock Issued as Payment for Promissory Notes

On March 26, 2014, we issued an aggregate 1,360,000 shares of our common stock, at a conversion price of $0.25, as payment for $275,000 of Note Payable and $65,000 of accrued and unpaid interest expense. Our stock price on the date of issuance was $0.43 per share, resulting in an additional fair value of $244,800 which was recorded as interest expense. The Note Payables included in this conversion are noted below.

Clyra Offering

On February 1, 2014, Clyra began a private offering of its common stock, at $1,000 per share. On March 14, 2014, Clyra received $50,000 in gross and net proceeds from a private offering for its stock, at $1,000 per share.

Issuance of Common Stock in exchange for payment of payables

On March 31, 2014, we paid $92,197 in accounts payable to board members, vendors, and consultants, for bona fide services provided, pursuant to our "accounts payable" conversion plan adopted by our Board of Directors, by the issuance of 245,747 shares of our common stock.

Issuance of Stock Options in exchange for payment of payables

On March 31, 2014, we issued Options to purchase 235,467 shares of our common stock at an exercise price of $0.43 per share to certain vendors and consultants, in lieu of $67,500 in accrued and unpaid fees, pursuant to our an "accounts payable" conversion plan adopted by our Board of Directors.

Issuance of Common Stock in exchange for payment of Note Payables

On March 26, 2014, we paid $275,000 in Note Payables (see Note 9), by the issuance of 1,360,000 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 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, 2014	By: /s/ DENNIS P. CALVERT Dennis P. Calvert Chief Executive Officer
Date: May 14, 2014	By: /s/ CHARLES K. DARGAN, II Chief Financial 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).
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