SEALED AIR CORP/DE
Form 10-Q
November 03, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015

Or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 1-12139

SEALED AIR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	65-0654331
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
	28273

8215 Forest Point Boulevard

Charlotte, North Carolina
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (201) 791-7600

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 x

There were 197,423,854 shares of the registrant's common stock, par value $0.10 per share, issued and outstanding as of October 30, 2015.

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Cautionary Notice Regarding Forward-Looking Statements

This report contains “forward-looking statements” within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 concerning our business, consolidated financial condition and results of operations. The Securities and Exchange Commission (“SEC”) encourages companies to disclose forward-looking statements so that investors can better understand a company’s future prospects and make informed investment decisions. Forward-looking statements are subject to risks and uncertainties, many of which are outside our control, which could cause actual results to differ materially from these statements. Therefore, you should not rely on any of these forward-looking statements. Forward-looking statements can be identified by such words as “anticipates,” “believes,” “plan,” “assumes,” “could,” “should,” “estimates,” “expects,” “intends,” “potential,” “seek,” “predict,” “may,” “wil
references to future periods. All statements other than statements of historical facts included in this report regarding our strategies, prospects, financial condition, operations, costs, plans and objectives are forward-looking statements. Examples of forward-looking statements include, among others, statements we make regarding expected future operating results, expectations regarding the results of restructuring and other programs, anticipated levels of capital expenditures and expectations of the effect on our financial condition of claims, litigation, environmental costs, contingent liabilities and governmental and regulatory investigations and proceedings.

Please refer to Part I, Item 1A, “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 for important factors that we believe could cause actual results to differ materially from those in our forward-looking statements. Any forward-looking statement made by us in this report is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

Non-U.S. GAAP Information

We present financial information that conforms to Generally Accepted Accounting Principles in the United States of America (“U.S. GAAP”). We also present financial information that does not conform to U.S. GAAP, which we refer to as non-U.S. GAAP, as our management believes it is useful to investors. In addition, non-U.S. GAAP measures are used by management to review and analyze our operating performance and, along with other data, as internal measures for setting annual budgets and forecasts, assessing financial performance, providing guidance and comparing our financial performance with our peers. The non-U.S. GAAP information has limitations as an analytical tool and should not be considered in isolation from or as a substitute for U.S. GAAP information. It does not purport to represent any similarly titled U.S. GAAP information and is not an indicator of our performance under U.S. GAAP. Non-U.S. GAAP financial measures that we present may not be comparable with similarly titled measures used by others. Investors are cautioned against placing undue reliance on these non-U.S. GAAP measures. Further, investors are urged to review and consider carefully the adjustments made by management to the most directly comparable U.S. GAAP financial measure to arrive at these non-U.S. GAAP financial measures. See Note 4, “Segments” and our Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) for reconciliations of our non-U.S. GAAP financial measures to U.S. GAAP. Information reconciling forward-looking non-U.S. GAAP measures to U.S. GAAP measures is not available without unreasonable effort.

Our management may assess our financial results both on a U.S. GAAP basis and on a non-U.S. GAAP basis. Non-U.S. GAAP financial measures provide management with additional means to understand and evaluate the core operating results and trends in our ongoing business by eliminating certain one-time expenses and/or gains (which may not occur in each period presented) and other items that management believes might otherwise make comparisons of our ongoing business with prior periods and peers more difficult, obscure trends in ongoing operations or reduce management’s ability to make useful forecasts.

Our non-U.S. GAAP financial measures may also be considered in calculations of our performance measures set by the Organization and Compensation Committee of our Board of Directors for purposes of determining incentive compensation. The non-U.S. GAAP financial metrics mentioned above exclude items that we consider as unusual or special items. We evaluate unusual or special items on an individual basis. Our evaluation of whether to exclude an unusual or special item for purposes of determining our non-U.S. GAAP financial measures considers both the quantitative and qualitative aspects of the item, including among other things (i) its nature, (ii) whether or not it relates to our ongoing business operations, and (iii) whether or not we expect it to occur as part of our normal business on a regular basis.

We also present our adjusted income tax rate or provision (“Core Tax Rate”). The Core Tax Rate is a Non-U.S. GAAP measure of our U.S. GAAP effective tax rate, adjusted to exclude the tax impact from the special items that are excluded from our Adjusted Net Earnings and Adjusted EPS metrics as well as expense or benefit from any special taxes or tax benefits. The Core Tax Rate is an indicator of the taxes on our core business. The tax situation and effective tax rate in the specific countries where the excluded or special items occur will determine the impact (positive or negative) to the Core Tax Rate.

In our “Net Sales by Geographic Region,” “Components of Change in Net Sales by Segment” and in some of the discussions and tables that follow, we exclude the impact of foreign currency translation when presenting net sales information, which we define as “constant dollar.” Changes in net sales excluding the impact of foreign currency translation are non-U.S. GAAP financial measures. As a worldwide business, it is important that we take into account the effects of foreign currency translation when we view our results and plan our strategies. Nonetheless, we cannot control changes in foreign currency exchange rates. Consequently, when our management looks at our financial results to measure the core performance of our business, we may exclude the impact of foreign currency translation by translating our current period results at prior period foreign currency exchange rates. We also may exclude the impact of foreign currency translation when making incentive compensation determinations. As a result, our management believes that these presentations are useful internally and may be useful to investors.

We also exclude the impact of divestitures when comparing results to prior periods. Changes in operating results excluding the impact of divestitures are non-U.S. GAAP financial measures; however, we feel it is important to exclude the impact of divestitures on year-over-year results in order to evaluate performance on a more comparable basis.

SEALED AIR CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In millions, except share data)	September 30, 2015 (unaudited)	December 31, 2014 [1]
ASSETS		
Current assets:		
Cash and cash equivalents	$ 334.3	$ 322.6
Trade receivables, net of allowance for doubtful accounts of $26.1 in 2015 and $28.8 in 2014	898.6	1,002.2
Income tax receivables	55.8	277.0
Other receivables	127.2	127.0
Inventories	765.5	695.3
Deferred taxes	99.4	105.6
Assets held for sale	5.5	69.3
Prepaid expenses and other current assets	199.3	122.1
Total current assets	2,485.6	2,721.1
Property and equipment, net	905.9	970.6
Goodwill	2,917.0	2,998.6
Intangible assets, net	812.8	872.2
Non-current deferred taxes	102.7	105.9
Other non-current assets	362.3	373.3
Total assets	$ 7,586.3	$ 8,041.7
LIABILITIES AND STOCKHOLDERS' EQUITY		10

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BIOLARGO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2008	5,193,361	$ 0.125	2.00
Issued	2,831,674	$ 0.75	1.00
Exercised		$	
Expired	(923,111)	$ 0.50	0.875
Outstanding as of June 30, 2009	7,101,924	$ 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:

	2008	2009	
Risk free interest rate	2.11%	0.52	1.30%
Expected volatility	310%	253	380%
Expected dividend yield			
Forfeiture rate			
Expected life in years	1.50	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.

The aggregate fair value of the warrants issued and outstanding as of June 30, 2009 totaled $3,777,827. Of this total, $87,500 was related to warrants issued to a consultant of which $35,000 was expensed during the year ended December 31, 2008 and $52,500 was expensed during the three-month period ended March 31, 2009. The remaining fair value of $3,349,849 was issued in conjunction with our convertible notes and is recorded on our balance sheet as discount on convertible notes net of amortization of $2,489,885. We recorded $377,374 and $736,634 of interest expense related to the amortization of the discount on convertible notes for the six-month periods ended June 30, 2008 and 2009, respectively.

Note 8. Stockholders Equity

Preferred Stock

Our certificate of incorporation authorizes our Board of Directors to issue preferred stock, from time to time, on such terms and conditions as they shall determine. As of June 30, 2009 and December 31, 2008 there were no outstanding shares of our preferred stock.

Common Stock

As of December 31, 2008 and June 30, 2009 there were 42,261,268 and 42,700,595 shares of common stock outstanding, respectively. The increase in shares during the six-month period ended June 30, 2009 is comprised of the following stock issuances: (i) 155,453 shares of our common stock for accrued and unpaid interest related to our 2007 Notes, (ii) 16,948 shares of our common stock to a director in exchange for his services as a director, (iii) 105,081 shares of our common stock in payment of rent pursuant to our Sublease Agreement, and (iv) 161,845 shares of our common stock pursuant to three consulting agreements.

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BIOLARGO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. 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.

Under this plan, 6,000,000 shares of our common stock are reserved for issuance under awards. Any shares that are represented by awards under the 2007 Plan that are forfeited, expire, or are canceled or settled in cash without delivery of shares, or that are forfeited back to us or reacquired by us after delivery for any reason, or that are tendered to us or withheld to pay the exercise price or related tax withholding obligations in connection with any award under the 2007 Plan, will again be available for awards under the 2007 Plan. Only shares actually issued under the 2007 Plan will reduce the share reserve. If we acquire another entity through a merger or similar transaction and issue replacement awards under the 2007 Plan to employees, officers and directors of the acquired entity, those awards, to the extent permitted under applicable laws and securities exchange rules, will not reduce the number of shares reserved for the 2007 Plan.

The 2007 Plan imposes additional maximum limitations, which limitations will be adjusted to take into account stock splits, reverse stock splits and other similar occurrences. The maximum number of shares that may be issued in connection with incentive stock options granted to any one person in any calendar year intended to qualify under Internal Revenue Code Section 422 is 160,000 shares. The maximum number of shares that may be subject to stock options or stock appreciation rights granted to any one person in any calendar year is 200,000 shares, except that this limit is 400,000 shares if the grant is made in the year of the recipient s initial employment. The maximum number of shares that may be subject to restricted stock or restricted stock units granted to any one person in any calendar year is 200,000 shares.

The maximum number shares that may be subject to awards granted to any one Participant in any calendar year of (i) performance shares, and/or performance units (the value of which is based on the Fair Market Value of a share of our common stock), is 200,000 shares; and (ii) of performance units (the value of which is not based on the Fair Market Value of a share of our common stock) that could result a payment of more than $500,000.

During the six-month period ended June 30, 2009, we granted options to purchase shares of our common stock which aggregated to 70,000 shares, 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 $0.28 and $0.38 depending upon their respective dates of grant. The fair value of these options totaled $29,800, of which $13,133 was expensed during the three-month period ended March 31, 2009, $4,667 was expensed during the three-month period ended June 30, 2009, and the remaining $12,000 is included on our balance sheet in accrued option compensation expense. Each option is exercisable for ten years from its respective date of grant.

On April 27, 2009, in an effort to preserve the Company s cash and reduce outstanding payables, we offered to third parties, officers and board members an option (Option) to purchase common stock in lieu of cash payment to reduce amounts we owed to these individuals. The Options may be exercised at $0.50 cents a share, an amount which was $0.20 cents a share above the $0.30 cents per share closing price of our common stock on April 27, 2009, would be issued pursuant to the Company s 2007 Equity Incentive Plan, and would expire April 27, 2012.

The members of the Board, as well as the Company s Chief Financial Officer, opted to reduce their outstanding accrued and unpaid compensation by an aggregate $150,000 in exchange for Options to purchase up to an aggregate 450,000 shares of common stock. The Options issued to Board members Dennis P. Calvert and Kenneth R. Code were issued at an exercise price of $0.55 per share, rather than $0.50 per share. The fair value of these options resulted in additional expense totaling $3,092 which was expensed during the three-month period ended June 30, 2009. In addition, seven individuals who provided services to the Company agreed to reduce their payables by an aggregate

$75,678 and accept Options to purchase up to an aggregate 292,135 shares, under the terms set forth by the Board. The fair value of these options resulted in additional expense totaling $5,849, which was expensed during the three-month period ended June 30, 2009.

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During the six-month periods ended June 30, 2008 and 2009 we recorded an aggregate $241,613 and $152,093 in option compensation expense related to options issued pursuant to the 2007 Plan.

Activity for our stock options under the 2007 Plan for the six-month period ended June 30, 2009 is as follows:

	Options Outstanding	Shares Available	Price per share			Weighted Average Price per share
Balances, December 31, 2008	785,000	5,215,000	$	0.35	$1.89	$ 1.02
Granted	812,135	(772,135)	$	0.28	0.55	$ 0.49
Exercised						
Canceled						
Balances, June 30, 2009	1,597,135	4,442,865	$	0.28	$1.89	$ 0.74

The following table summarizes the stock options issued under the 2007 Equity Plan outstanding at June 30, 2009.

Options Outstanding at June 30, 2009	Exercise Price	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Currently Exercisable Number of Shares at June 30, 2009	Currently Exercisable Weighted Average Exercise Price
20,000	$ 0.40	10	$ 0.40	20,000	$ 0.40
605,000	$ 0.94 1.03	10	$ 0.97	105,000	$ 0.94
50,000	$ 1.89	10	$ 1.89	50,000	$ 1.89
110,000	$ 0.35 1.65	10	$ 1.04	110,000	$ 1.04
60,000	$ 0.28 0.38	10	$ 0.30	60,000	$ 0.30
622,135	$ 0.50	3	$ 0.50	622,135	$ 0.50
120,000	$ 0.55	3	$ 0.55	120,000	$ 0.55

Stock Options Issued Outside the 2007 Equity Incentive Plan

On January 10, 2008, pursuant to consulting agreements with Jeffrey C. Wallace and Robert J. Szolomayer, we issued options outside the 2007 Equity Plan to purchase 2,400,000 shares of our common stock at $0.99 per share. Each option is exercisable for five years, and vests in four equal installments commencing on the date of the respective consulting agreement and continuing on each of December 31, 2008, December 31, 2009 and December 31, 2010 (each, an Option Vesting Date); provided that no additional portion of each option shall vest if Mr. Wallace or Mr. Szolomayer, as the case may be, is not providing services under his consulting agreement as of such Option Vesting Date. The fair value of these options was $2,358,240, and for the six-month periods ended June 30, 2008 and 2009 we recognized $884,340 and $297,000 of consulting expense, respectively.

On April 30, 2007, we issued an option outside the 2007 Equity Plan to our Chief Executive Officer to purchase 7,733,259 shares of our common stock at $0.18 per share, a discount to the $0.37 closing price on the date of issuance. This option vests over three years in equal amounts on the anniversary date, and expires ten years from the date of issuance. The fair value of this option was $2,861,306, and for the six -month periods ended June 30, 2008 and 2009 we recognized $476,884 of compensation expense.

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BIOLARGO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On April 27, 2009, we issued an option to purchase 691,974 shares of our common stock to New Millennium. (See Note 11.) The fair value of this option resulted in additional expense totaling $17,827 which was expensed during the three-month period ended June 30, 2009.

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 in accordance with the provisions of SFAS 123R, using the Black-Scholes Option Pricing Model. The following methodology and assumptions were used to calculate share based compensation for the three-month periods ended June 30, 2008 and 2009:

	Non plan Option		2007 Plan	
Risk free interest rate	2.17	4.50%	2.75	4.72%
Expected volatility	482	800%	482	769%
Expected dividend yield				
Forfeiture rate				
Expected life in years		3		3

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 guidance of Staff Accounting Bulletin No. 107, we follow 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.

Stock-based compensation expense recognized in the consolidated statements of operations is based on awards ultimately expected to vest, reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant, and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Historically, we have not had significant forfeitures of unvested stock options granted to employees and Directors. A significant number of our stock option grants are fully vested at issuance or have short vesting provisions. Therefore, we have estimated the forfeiture rate of our outstanding stock options as zero.

Note 10. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included the following:

	December 31, 2008	June 30, 2009
Accounts payable and accrued expenses	$ 302,518	$ 385,001
Accrued interest	560,031	382,027
Officer and Board of Director payable	130,882	145,991
Total Accounts Payable and Accrued Expenses	$ 993,431	$ 913,019

On April 27, 2009, in an effort to preserve the Company s cash and reduce outstanding payables, the Board offered to third parties, a related party, officers and board members an option (Option) to purchase shares of our common stock in lieu of cash payment to reduce amounts owed by the Company.

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BIOLARGO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounts payable and accrued expenses were reduced as certain vendors, consultants and professionals agreed to accept options to purchase shares of our common stock as payment of an aggregate $75,678, of which $45,543 was outstanding as of December 31, 2008, and the balance of $30,135 related to expenses incurred in the three-month period ended March 31, 2009. (See Note 6.)

Accrued interest as of December 31, 2008, includes $380,658 of accrued and unpaid interest related to a note previously held by New Millennium Capital Partners, LLC (New Millennium), a related party. The interest owed to New Millennium does not accrue additional interest (see Note 11). On April 27, 2009, New Millennium agreed to accept from the Company an option to purchase common stock as payment of $230,658 of the outstanding $380,658 in accrued but unpaid interest. The option will allow New Millennium to purchase up to 691,974 shares of the Company s common stock at $0.55 cents per share. (See Note 6.) New Millennium further agreed to extend the due date for the remaining $150,000 accrued and unpaid interest to April 30, 2010. The remaining $232,027 of accrued and unpaid interest relates to outstanding convertible promissory notes issued by the Company pursuant to its private securities offerings.

During the six-month period ended June 30, 2009, we paid $65,338 of outstanding interest by issuing an aggregate 155,453 shares of common stock, pursuant to the terms of certain promissory notes issued pursuant to the Spring 2008 Offering, issued at prices ranging from $0.37 to $0.47 per share.

During the six-month periods ended June 30, 2008 and 2009, we recorded $115,837 and $138,172, respectively, of interest expense related to the convertible notes outstanding.

Our Officers and board of directors agreed to accept an option to purchase shares of our common stock as payment of $150,000 of accounts payable and accrued expenses, of which $140,000 were outstanding as of December 31, 2008 and the balance of $10,000 related to board of director expense incurred in the three-month period March 31, 2009. (See Note 6.)

Note 11. Related Party Transaction

New Millennium

In March 2003, New Millennium, a company controlled by our president and chief executive officer, Dennis Calvert, purchased from a third party a promissory note in the principal amount of $1,120,000 we assumed pursuant to a licensing transaction in October 2002.

On April 28, 2006, New Millennium agreed to amend the terms of the $1,120,000 promissory note (the New Millennium Note) to (i) extend the due date to January 15, 2008; (ii) waive any payments of interest until it becomes due; (iii) reduce the principal amount from $1,120,000 to $900,000, equal to a 19.6% reduction; and (iv) correspondingly reduce the accrued but unpaid interest due under the terms of the note from $318,000 to $256,000, also equal to a 19.6% reduction.

On April 13, 2007, we entered into an agreement with New Millennium whereby the $900,000 principal amount of the New Millennium Note was converted 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. The remaining accrued but unpaid interest in the amount of $380,658 was not converted, and the parties agreed that no further interest would accrue, and that the interest would be paid on or before January 15, 2008, subsequently extended to April 30, 2009 by the Board of Directors and New Millennium. On April 27, 2009, New Millennium agreed to accept an option to purchase common stock as payment of $230,658 of the outstanding $380,658 in accrued but unpaid interest. The option allows New Millennium to purchase up to 691,974 shares of the Company s common stock at $0.55 cents per share, on or before April 27, 2012. New Millennium further agreed to extend the due date for the remaining $150,000 accrued and unpaid interest to April 30, 2010. (See Notes 6, 9 and 10.)

BIOLARGO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Commitments and Contingencies

Litigation

From time to time, we are party to various claims, legal actions and complaints arising periodically in the ordinary course of our business. In the opinion of management, no such matters will have a material adverse effect on our financial position or results of operations.

Stock-Based Commitments

We have utilized and presently utilize the services of a number of consultants who have been and are compensated with shares of our common stock or securities convertible into or exercisable for shares of our common stock. Therefore, we may be obligated to issue additional securities to these consultants pursuant to the terms of our arrangements or agreements with them.

C.F.O Agreement Extension

On February 23, 2009, BioLargo, Inc. (the Company) and its Chief Financial Officer Charles K. Dargan, II agreed to extend the engagement agreement dated February 1, 2008 (the Engagement Agreement), pursuant to which Mr. Dargan served as the Company s Chief Financial Officer for a period of one year, expiring January 31, 2009. The Engagement Extension Agreement dated as of February 1, 2009 (the Engagement Extension Agreement) provides for an additional one-year term effective February 1, 2009 (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 as follows:

- an option to purchase 50,000 shares of the Company s common stock, granted on February 23, 2009, at an exercise price equal to the closing price of a share of the Company s common stock on the grant date, such option to vest in full 90 days after grant; and

- options to purchase 10,000 shares of the Company s common stock, each such option to be granted on the last day of each month commencing April 2009 and ending January 2010, 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.

All other provisions of the Engagement Agreement not expressly amended pursuant to the Engagement Extension Agreement remain the same, including provisions regarding indemnification and arbitration of disputes.

Note 13. Subsequent Events

Promissory Note

On August 1, 2009, we received $70,000 from an investor and issued a promissory note bearing interest at the rate of 10% per annum, due in full 90 days from the date of issuance.

Stock Issuances

Subsequent to June 30, 2009, we issued an aggregate 95,642 shares of our common stock. Of the total, (i) 41,518 shares of our common stock were issued as payment of obligations related to consulting agreements, (ii) 18,159 shares of our common stock were issued as payment of $3,525 of accrued and unpaid interest pursuant to our 2007 Offering, (iii) 35,965 shares of our common stock were issued as payment of rental obligations pursuant to our Sublease agreement.

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, 2008. Unless otherwise expressly stated herein, all statements, including forward-looking statements, set forth in this Form 10-Q are as of June 30, 2009, 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 subsidiary, BioLargo Life Technologies, 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. (see Strategic Alliance with Ioteq below). 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.

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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, we are focused on commercializing our BioLargo technology and the Isan system in products applicable to the agriculture industry. 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. The Isan related opportunities are focused primarily on post-harvest treatment of fruits and vegetables, irrigation supply, and hydroponic growers. We continue to work with a number of very large 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 these technologies. No such regional or global partnerships have been formed at this time, and we can make no representation about its ability to successfully conclude such partnership arrangements.

Second, in 2008, we began development of three products incorporating our BioLargo technology under the brand name Odor-No-More . 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.

Odor-No-More

During 2008 we identified and began development of three products incorporating our BioLargo technology targeted to the animal health marketplace, the primary product advantages help customers save time and money while controlling odor and moisture. We expect that additional products may be identified in the future. We began to work with potential customers and distributors with these products to gather feedback, evaluate effectiveness and develop a marketing strategy and product claims portfolio. We have test marketed the following products under the Odor-No-More brand:

1. Animal Bedding Additive
2. Cat Litter Additive
3. Facilities and Equipment Wash

The primary benefit of each product is their ability to save customers time and money while eliminating odor and controlling moisture. They also work more effectively and rapidly than many competing products, with much smaller application rates. The Animal Bedding Additive and Cat Litter Additive contain super absorbent materials, and extend the useful life of the customer s current bedding/litter materials, typically reducing labor and disposal costs as well as reducing the amount of bedding/litter used. Each product has other potential benefits for the customer, all of which focus on helping owners keep their facilities and animals clean, dry, safe and healthy.

On May 13, 2009, as a result of our test marketing efforts, we announced the launch our Odor-No-More products. We have established local third party manufacturing and packaging for the products, as well as alternative manufacturing facilities in other parts of the United States. We have signed national distributors in the animal care market, one of the largest catalog and eCommerce animal health supply retailers, a distributor in the exotic animal care market, and are currently in discussions with other industry leaders. We received our first large commercial order for Odor-No-More products, from national distributor E.T. Horn Company, in June 2009. Our advertising efforts have initially focused on our animal bedding additive product, but our customers continue to order the cat litter additive and facilities and equipment wash.

As part of our promotional and advertising campaign we are sponsoring and participating in equestrian events, local fairs, trade shows, horse and livestock shows, and a horse rescue organization.

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A number of our Odor-No-More products may be eligible for certain regulated claims. While we are not required to pursue such claims, it may, at some point in the future, be in the best interests of the Company to work towards and pursue additional regulated marketing claims to further differentiate the products in the marketplace as financial resources are more readily available.

Results of Operations Comparison of the three- and six-month periods ended June 30, 2008 and 2009

During the six-month period ended June 30, 2009, we did not generate any revenues and incurred a net loss of $3,602,012. Of this amount, $1,715,111 consists of non-cash expenses related to the issuances of stock options, warrants and stock for services and $558,384 of expense related to the amortization of our intangible assets. During that time, we commercially launched our Odor-No-More branded products, obtaining our first significant purchase order totaling of $96,676, continued research and development on our technologies, and continued our efforts to market the Isan system.

Revenue

We generated no revenues from operations during the three- and six-month periods ended June 30, 2009 and 2008.

Selling, General and Administrative Expense

Selling, General and Administrative expenses were $1,085,878 and $2,077,668 for the three- and six-month periods ended June 30, 2009, compared to $1,038,443 and $2,950,657 for the three- and six-month periods ended June 30, 2008, an increase of $47,435 and a decrease of $872,989, respectively. The largest components of these expenses were:

a. Salaries and Payroll-related Expenses: These expenses were $442,064 and $934,593 for the three- and six-month periods ended June 30, 2009, compared to $484,785 and $948,669 for the three- and six-month periods ended June 30, 2008, a decrease of $42,721 and $14,076, respectively. There was no change to our management team and the decrease is related to a lower fair value of options issued in the three- and six-month periods June 30, 2009 as compared to the same periods in 2008.

b. Consulting Expenses: These expenses were $272,484 and $548,547 for the three- and six-month periods ended June 30, 2008, compared $242,923 and $1,367,748 for the three- and six-month periods ended June 30, 2008, an increase of $29,561 and a decrease of $819,201, respectively. The increase in the three-month period June 30, 2009, is related to a new contract with a consultant to provide technical services related to our technologies. The decrease in the six-month period ended June 30, 2009 is primarily attributable to non-cash stock option compensation expense incurred in the three- and six-month periods ended June 30, 2008 related to the long-term consulting agreements with Robert Szolomayer, our Director of Corporate Development, and Jeffrey Wallace, our Director of Sales and Marketing, both of which began in January 2008, as well as a warrants that vested in the three- and six-month periods ended June 30, 2008 related to consultants and other professional advisors.

c. Professional Fees: These expenses were $67,729 and $153,924 for the three- and six-month periods ended June 30, 2009, compared to $152,059 and $354,492 for the three- and six-month periods ended June 30, 2008, a decrease of $134,704 and $200,568, respectively. The decrease in the three- and six-month periods ended June 30, 2009 is primarily attributable to a comparative reduction in legal fees resulting from a reduced need for those services.

d. Other Expense: These expenses were $60,000 and $110,000 for the three- and six-month periods ended June 30, 2009, compared to $0 for the three- and six-month periods ended June 30, 2008. The expenses incurred in 2009 were the result of expense pursuant to a marketing agreement with Ioteq which was executed in September 2008.

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Interest expense

Interest expense totaled $471,280 and $874,806 for the three- and six-month periods ended June 30, 2009, compared to $302,686 and $493,211 for the three- and six-month periods ended June 30, 2008, an increase of $168,594 and $381,595, respectively. The increase in the three- and six-month periods ended June 30, 2009 is attributable to the fair value of the new note offerings and the continued amortization of the discount on convertible notes previously issued in connection with our private convertible security offerings.

Research and Development

Research and development expenses were $56,389 and $93,318 for the three- and six-month periods ended June 30, 2009, compared to $43,961 and $93,684 for the three- and six-month periods ended June 30, 2008, an increase of $12,428 and a slight decrease of $366. The increase in the three-month period ended June 30, 2009 is the result of a general increase related to legal patent expense and product development related to our Odor-No-More product line.

Net Loss

Net loss for the three- and six-month periods ended June 30, 2009 was $1,894,196 and $3,602,612, or a loss of $0.04 and $0.08 per share, compared to a net loss for the three- and six-month periods ended June 30, 2008 of $1,659,207 and $4,075,470, or a loss of $0.04 and $0.10 per share, respectively. The net loss for the six-month period decreased due to the aforementioned decrease in consulting fees and professional fees, partially offset by the increase in interest expense and in other expense related to the marketing agreement with Ioteq, to a new contract with a consultant to provide technical services related to our technologies, and due to interest expense related The net loss for the three-month period June 30, 2009 increased due to the increase in interest expense and in other expense related to the marketing agreement with Ioteq. The net loss per share was unchanged for the three-month periods ended June 30, 2009 and 2008, and decreased by $0.02 cents as compared to the three- and six-month periods ended June 30, 2009 and 2008 due to the reduction of consulting fees and an increase in the comparable number of weighted average shares outstanding.

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 $65,651 at June 30, 2009. We had negative working capital of $3,020,231 for the six-month period ended June 30, 2009, compared with negative working capital of $3,019,907 for the six-month period ended June 30, 2008. We had negative cash flow from operating activities of $704,143 six-month period ended June 30, 2009, compared to a negative cash flow from operating activities of $1,066,966 for the six-month period ended June 30, 2008. 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 $3,602,612 for the six-month period ended June 30, 2009, and an accumulated stockholders deficit of $45,758,644 as of June 30, 2009. 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.

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As of June 30, 2009 we had $2,653,035 aggregate principal amount, together with $232,027 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, 2009, we had $1,121,091 in accrued and unpaid payables, including officer and director payables. Due to our limited cash resources, our payables increased during the six-month period ended June 30, 2009. In addition, as of June 30, 2009, we owed $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.

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. During the six-month period ended June 30, 2009, we received gross and net proceeds of $679,410 pursuant to private offerings of our securities.

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 global economic conditions, we can not make assurances 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, license and legally protect our BioLargo technology. If we were forced to curtail aspects of our operations, there could be a material adverse impact on our intellectual property, financial condition and results of operations.

Obligation to New Millennium Capital Partners, LLC

In March 2003, New Millennium, a company controlled by our president and chief executive officer, Dennis P. Calvert, purchased from a third party a promissory note in the principal amount of $1,120,000 we assumed pursuant to a licensing transaction in October 2002.

On April 28, 2006, New Millennium agreed to amend the terms of the $1,120,000 promissory note (the New Millennium Note) to (i) extend the due date to January 15, 2008; (ii) waive any payments of interest until it becomes due; (iii) reduce the principal amount from $1,120,000 to $900,000, equal to a 19.6% reduction; and (iv) correspondingly reduce the accrued but unpaid interest due under the terms of the note from $318,000 to $256,000, also equal to a 19.6% reduction.

On April 13, 2007, we entered into an agreement with New Millennium whereby the $900,000 principal amount of the New Millennium Note was converted 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. The remaining accrued but unpaid interest in the amount of $380,658 was not converted, and the parties agreed that no further interest would accrue, and that the interest would be paid on or before January 15, 2008. On November 12, 2008, Mr. Calvert and we further extended 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 the Company s common stock, exercisable at 55 cents per share. The expiration date of the option is April 24, 2012. New Millennium further agreed to extend the due date for the remaining $150,000 unpaid interest to April 30, 2010.

2007 Equity Incentive Plan

On April 27, 2009, in an effort to preserve the Company s cash and reduce outstanding payables, the Board offered to third parties, officers and board members an option (Option) to purchase common stock in lieu of cash payment to reduce amounts owed by the Company. The Options may be exercised at $0.50 cents a share, an amount which was 20 cents a share above the $0.30 per share closing price of the Company s common stock on April 27, 2009, would be issued pursuant to the Company s 2007 Equity Incentive Plan, and would expire April 27, 2012.

The members of the Board, as well as the Company s Chief Financial Officer, opted to reduce their outstanding accrued and unpaid compensation by an aggregate $150,000 in exchange for Options to purchase up to an aggregate 450,000 shares of common stock. The Options issued to Board members Dennis P. Calvert and Kenneth R. Code were issued at an exercise price of $0.55 per share, rather than $0.50 per share. In addition, seven individuals who provided services to the Company agreed to reduce their payables by an aggregate $99,378 and accept Options to purchase up to an aggregate 298,135 shares, under the terms set forth by the Board.

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 Financial Accounting Statements Board Statement No. 123R 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 FASB (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.

Item 4. Controls and Procedures

(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 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. In February 2008, we hired a Chief Financial Officer who is a Certified Public Accountant. We have also adopted disclosure controls and procedures guidelines. 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.

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PART II
OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are party to various claims, legal actions and complaints arising periodically in the ordinary course of our business. No such claims, actions or complaints are pending or threatened at this time.

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

Spring 2009 Offering

In April 2009 we commenced a private offering (the Spring 2009 Offering) of up to $1,000,000 of our 10% convertible promissory notes due June 1, 2012 (the Spring 2009 Notes), subject to an over-allotment option of 15%, or an aggregate $1,150,000 principal amount of Spring 2009 Notes. 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 the noteholders option or our option, into shares of our common stock, on or before the maturity date.

The Spring 2009 Notes are convertible into shares of our common stock at a conversion price of $0.55 per share. Purchasers of the Spring 2009 Notes receive, for no additional consideration, two stock purchase warrants, each of which entitle the holder to purchase the number of shares of the Company s Common Stock into which the principal amount of the 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 7.)

From the inception of the Spring 2009 Offering in April 2009, through June 30, 2009 we received gross and net proceeds of $16,410 from one investor and issued Spring 2009 Notes, the principal amount of which allow for conversion into an aggregate 29,837 shares of our common stock.

Fall 2008 Offering

In October 2008 we commenced a private offering (the Fall 2008 Offering) of up to $1,000,000 of our 10% convertible promissory notes due October 15, 2011 (the Fall 2008 Notes), subject to an over-allotment option of 15%, or an aggregate $1,150,000 principal amount of Fall 2008 Notes, which offering terminated on March 31, 2009. 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.

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. Also as originally offered, purchasers of the Fall 2008 Notes were to receive, for no additional consideration, two stock purchase warrants, each of which entitled the holder to purchase the number of shares of the Company s Common Stock into which the principal amount of the Note was convertible. The first warrant (the Fall 2008 One-Year Warrant) was exercisable at an initial price of $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 an initial price of $2.00 per share and was due to expire on October 15, 2011.

On January 16, 2009, our Board of Directors amended the terms of the Fall 2008 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.

From the inception of the Fall 2008 Offering in October 2008, through June 30, 2009 we received gross and net proceeds of $723,000 from eighteen investors and issued Fall 2008 Notes, the principal amount of which allow for conversion into an aggregate 1,446,000 shares of our common stock. Of this amount, $60,000 was received during 2008, $400,000 during the three-month period ended March 31, 2009, and $263,000 during the three-month period ended June 30, 2009.

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
4.1	Form of Convertible Note
4.2	Form of Warrant to Purchase Common Stock (One-Year Warrant)
4.3	Form of Warrant to Purchase Common Stock (Three-Year Warrant)
4.4	Form of Promissory Note
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 14, 2009

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

EXHIBIT INDEX

Exhibit No.	Description
4.1	Form of Convertible Note
4.2	Form of Warrant to Purchase Common Stock (One-Year Warrant)
4.3	Form of Warrant to Purchase Common Stock (Three-Year Warrant)
4.4	Form of Promissory Note
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).