

BIOLARGO, INC.
Form 10-Q
May 15, 2009

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**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, 2009.

or

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

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

BIOLARGO, INC.

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

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

**2603 Main Street, Suite 1155
Irvine, California 92614**
(Address, including zip code, of principal executive offices)
(949) 643-9540

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act: None

**Securities registered pursuant to Section 12(g) of the Exchange Act: Common Stock, \$0.0067 par
value.**

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

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

The number of shares of the Registrant's Common Stock outstanding as of March 31, 2009 was 42,349,018 shares.

BIOLARGO, INC.
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**BIOLARGO, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND MARCH 31, 2009**

	December 31, 2008	March 31, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 90,384	\$ 216,817
Other assets	4,586	13,025
 Total current assets	 94,970	 229,842
 FIXED ASSETS		
Equipment, net	25,954	23,563
 Total fixed assets	 25,954	 23,563
 OTHER ASSETS		
Licensing rights, net	9,633,052	9,377,524
Assigned agreements, net	255,285	234,012
 TOTAL ASSETS	 \$ 10,009,261	 \$ 9,864,941
 LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 993,431	\$ 1,234,343
Accrued option compensation expense	657,801	1,105,789
Convertible notes payable, current portion	1,000,000	1,000,000
Discount on convertible notes, current portion net of amortization	(568,738)	(90,383)
 Total Current Liabilities	 2,082,494	 3,249,749
 LONG-TERM LIABILITIES		
Convertible notes payable, net of current portion	973,625	1,373,625
Discount on convertible notes, net of current portion and amortization	(400,950)	(872,914)
 Total Long-term Liabilities	 572,675	 500,711
 TOTAL LIABILITIES	 2,655,169	 3,750,460

COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

STOCKHOLDERS EQUITY

Convertible Preferred Series A, \$.00067 par value, 50,000,000 shares authorized, -0- shares issued and outstanding, at March 31, 2009 and December 31, 2008.

Common Stock, \$.00067 par value, 200,000,000 shares authorized, 42,349,018 and 42,261,268 shares issued, at March 31, 2009 and December 31, 2008, respectively

Additional Paid-In Capital

Accumulated Deficit

28,319	28,381
49,481,805	49,950,548
(42,156,032)	(43,864,448)

Total Stockholders Equity

7,354,092	6,114,481
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TOTAL LIABILITIES AND STOCKHOLDERS EQUITY

\$ 10,009,261	\$ 9,864,941
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See accompanying notes to consolidated financial statements

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BIOLARGO, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2008 AND 2009

	For the three-month periods ended March 31,	
	2008	2009
Revenue	\$	\$
Total revenue		
Costs and expenses		
Selling, general and administrative	1,912,214	991,790
Research and development	49,723	36,929
Amortization	276,801	279,192
Total costs and expenses	2,238,738	1,307,911
Loss from operations	(2,238,738)	(1,307,911)
Other income and (expense)		
Interest expense	(190,525)	(403,526)
Other income	13,000	3,021
Net other income and (expense)	(177,525)	(400,505)
Net loss	\$ (2,416,263)	\$ (1,708,416)
Loss per common share basic and diluted		
Loss per share	\$ (0.06)	\$ (0.04)
Weighted average common share equivalents outstanding	40,155,296	42,325,788

See accompanying notes to consolidated financial statements

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**BIOLARGO, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2009**

	Common Stock				
	Number of Shares	Par Value \$.00067	Additional Paid-In Capital	Retained Earnings (Deficit)	Total
BALANCE DECEMBER 31, 2008	42,261,268	\$ 28,319	\$ 49,481,805	\$ (42,156,032)	\$ 7,354,092
Issuance of warrants as part of convertible note offering			368,989		368,989
Fair value of warrant repricing			52,967		52,967
Issuance of stock options to officer in lieu of services			8,466		8,466
Issuance of stock for services	87,750	62	38,321		38,383
Net loss for the three-month period ended March 31, 2008				(1,708,416)	(1,708,416)
	42,349,018	\$ 28,381	\$ 49,950,548	\$ (43,864,448)	\$ 6,114,481

See accompanying notes to consolidated financial statements

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**BIOLARGO, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2008 AND 2009**

	For the three-month periods ended March 31,	
	2008	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (2,416,263)	\$ (1,708,416)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Non-cash interest expense related to the fair value of warrants issued in conjunction with our convertible notes	134,999	353,891
Non-cash expense related to options issued to officers	340,684	329,909
Non-cash expense related to warrants and options issued to consultants	1,018,417	201,000
Issuance of stock for services provided		28,383
Amortization and depreciation expense	276,260	279,192
Decrease (Increase) in prepaid expense		(7,096)
Increase in accounts payable and accrued expenses	180,961	249,570
Net Cash Used In Operating Activities	(464,943)	(273,567)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercised warrants	608,750	
Payments on note payable	(7,468)	
Proceeds from convertible notes		400,000
Net Cash Provided By Financing Activities	601,282	400,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	136,340	126,433
CASH AND CASH EQUIVALENTS BEGINNING	457,809	90,384
CASH AND CASH EQUIVALENTS ENDING	\$ 594,149	\$ 216,817
SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION		
Cash Paid During the Period for:		
Interest	\$	\$
Income taxes	\$	\$
Conversion of accrued expenses to shares of the Company's common stock:		
Board of Directors and officer obligations	\$	\$ 10,000

SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING AND
INVESTING ACTIVITIES:

Issuance of warrants in conjunction with convertible note offerings	\$ 165,725	\$ 400,000
Repriced warrants in conjunction with convertible note offering	\$	\$ 52,967

See accompanying notes to consolidated financial statements

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**BIOLARGO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 1. Business and Organization

Outlook

Prior to the acquisition of certain patented and patent-pending intellectual property and other assets (the BioLargo technology) from IOWC Technologies, Inc. (IOWC) on April 30, 2007, BioLargo, Inc. (the Company , or we) had no continuing business operations and operated as a shell company.

We will be required to raise substantial capital to sustain our expanded 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 will need additional outside capital until and unless that technology is able to generate positive working capital sufficient to fund our cash flow requirements from operations and we may be compelled to reduce or curtail certain activities to preserve cash.

These 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 \$1,708,416 for the three-month period ended March 31, 2009, negative working capital of \$3,019,907 for the three-month period ended March 31, 2009, and negative cash flow from operating activities of \$273,567 for the three-month period ended March 31, 2009, and an accumulated stockholders' deficit of \$43,864,448 as of March 31, 2009. Also, as of March 31, 2009, we had limited liquid and capital resources. 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 new sources of capital, exploit our technology so that it attains a reasonable threshold of operating efficiencies and achieves profitable operations. The 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, 2009, cash and cash equivalents totaled \$216,817, we had no revenues in the three-month period ended March 31, 2009, and financing activities funded operations.

During the three-month period ended March 31, 2009, we received proceeds of \$400,000 and issued convertible promissory notes pursuant to our outstanding private securities offering which began in October 2008. (See Note 3.)

As of March 31, 2009, we had \$2,373,625 aggregate principal amount, together with \$229,008 accrued and unpaid interest, outstanding on promissory notes that mature at various times during 2009, 2010 and 2011. (See Note 3.)

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

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**BIOLARGO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarterly results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis and financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2008.

Organization

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

Business Overview

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

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**BIOLARGO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Second, in 2008, we engaged in the development of three products incorporating our BioLargo technology under the brand name *Odor-No-More*. At the end of 2008 we began to test market the products in the animal health industry. The primary benefits of the three products are odor and moisture control. In the three-month period ended March 31, 2009, we continued to develop and test market our *Odor-No-More* products.

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 advantage being odor control. 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 are actively test marketing 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 the ability to eliminate odors, perform rapidly, and hold moisture more effectively than competing products. The Animal Bedding Additive and Cat Litter Additive also contain super absorbent materials, and extend the useful life of the customer's current bedding or litter products for their animal care needs. 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, with a focus on the animal bedding additive and the facilities and equipment wash for the animal health industry.

Note 2. Intangible Assets/Long-lived Assets

Licensing rights are stated on the balance sheet net of accumulated amortization of \$1,959,048 as of March 31, 2009. Amortization expense for the three-month period ended March 31, 2008 and 2009 was \$255,528. At March 31, 2009 the weighted average remaining amortization period for the licensing rights was approximately 10 years.

Certain agreements assigned to us in connection with our acquisition of the BioLargo technology (the *Assigned Agreements*) are stated on the balance sheet net of accumulated amortization of \$163,093 at March 31, 2009.

Amortization expense for the three-month period ended March 31, 2008 and 2009 was \$21,273. At March 31, 2009 the weighted average remaining amortization period was approximately 3 years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Sale of Unregistered Securities**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. (See Note 4.)

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 March 31, 2009 we received subscriptions for proceeds of \$723,000 from seventeen investors. Of this amount, we received gross and net proceeds of \$460,000, of which \$60,000 was received during 2008 from four investors, and \$400,000 during the three-month period ended March 31, 2009 from eight investors, and issued Fall 2008 Notes, the principal amount of which allow for conversion into an aggregate 920,000 shares of our common stock. (See Note 11.)

Spring 2008 Offering

Pursuant to a private offering that commenced March 2008 (the Spring 2008 Offering) and terminated August 2008, we sold \$913,625 of our 10% convertible notes (the Spring 2008 Notes), which are due and payable on March 31, 2010, to 30 investors, convertible into an aggregate 676,775 shares of our common stock. The Spring 2008 Notes are convertible into shares of our common stock at an initial conversion price of \$1.35 per share. The Spring 2008 Notes can be converted voluntarily by the noteholders at any time prior to the maturity date. We can unilaterally convert the Spring 2008 Notes (i) on or after September 30, 2008, if we have received one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least \$3 million gross proceeds of equity or debt; or (ii) on the maturity date. Accordingly, the Spring 2008 Notes may be repaid in cash or may be converted, at our sole option, into shares of our common stock, on or before the maturity date of the Spring 2008 Notes.

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**BIOLARGO, INC. AND SUBSIDIARY
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Each purchaser of the Spring 2008 Notes received, for no additional consideration, two stock purchase warrants (a one-year warrant and a three-year warrant), each of which entitles the holder to purchase the number of shares of our common stock into which the holder's Spring 2008 Note is convertible. The Spring 2008 One-Year Warrants expired on March 31, 2009 and were exercisable at \$0.50 (originally \$1.50) per share. The Spring 2008 Three-Year Warrants are exercisable at an initial exercise price of \$2.00 per share and expire on March 31, 2011.

On September 19, 2008, our Board of Directors reduced the exercise price of the Spring 2008 One-Year Warrants from \$1.50 per share (the original exercise price pursuant to the terms of the Spring 2008 Offering) to \$1.00 per share. On January 16, 2009, our Board of Directors reduced the exercise price of the Spring 2008 One-Year Warrants from \$1.00 per share to \$0.50 per share. (See Note 4.)

Fall 2006 Offering

In May 2008, at the request of one holder of promissory notes issued pursuant to a private offering we commenced in September 2006 (the Fall 2006 Offering), we converted an aggregate principal amount of \$75,000 and \$10,687 of accrued but unpaid interest into 124,636 shares of our common stock, at a conversion rate of \$0.6875 per share. On September 13, 2008, we converted an aggregate principal amount of \$925,000, which amount represented the entire then outstanding principal amount of the promissory notes issued in the Fall 2006 Offering, and \$162,322 of accrued but unpaid interest, into an aggregate 1,581,580 shares of our common stock, at a conversion rate of \$0.6875 per share. As of December 31, 2008, all of the promissory notes issued in the Fall 2006 Offering have been converted into shares of our common stock.

Issuance of Securities in exchange for payment of payables

During the three-month period ended March 31, 2009, we issued 70,802 shares of our common stock, at prices ranging from \$0.38 to \$0.51, as payment of rental obligations totaling \$21,287 pursuant to our Sublease agreement. In addition, we issued 16,948 shares of our common stock to a director, at \$0.59 per share, in exchange for his services as a director.

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 4. Warrants**Fall 2008 Warrants**

During the three-month period ended March 31, 2009, we issued warrants to purchase up to an aggregate 1,600,000 shares of our common stock to purchasers of our Fall 2008 Notes, consisting of Fall 2008 One-Year Warrants to purchase up to an aggregate 800,000 shares which expire October 15, 2009, at an exercise price of \$0.75 per share, and Fall 2008 Three-Year Warrants to purchase up to an aggregate 800,000 shares which expire October 15, 2011, at an exercise price of \$1.00 per share.

During 2008 we issued warrants to purchase up to an aggregate of 240,000 shares of our common stock to purchasers of our Fall 2008 Notes, consisting of Fall 2008 One-Year Warrants to purchase up to an aggregate 120,000 shares which expire October 15, 2009, at an original exercise price of \$1.00, and Fall 2008 Three-Year Warrants to purchase up to an aggregate 120,000 shares which expire October 15, 2011, at an original exercise price of \$2.00 per share. On January 16, 2009, the exercise price of the Fall 2008 One-Year Warrants was reduced from \$1.00 to \$0.75, and the exercise price of the Fall 2008 Three-Year Warrants was reduced from \$2.00 to \$1.00, resulting in additional fair value totaling \$52,967, which is recorded as interest expense in the three-month period ended March 31, 2009.

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BIOLARGO, INC. AND SUBSIDIARY
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Also on January 16, 2009, the exercise price of the Spring 2008 One-Year Warrants was reduced from \$1.50 to \$1.00, resulting in an immaterial fair value adjustment. These Spring 2008 One-Year Warrants to purchase up to an aggregate 676,775 shares of our common stock at an exercise price of \$0.50, expired unexercised.

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	5,439,697	\$ 0.125 2.00
Issued	1,720,000	\$ 0.75 1.00
Exercised		\$
Expired	(676,775)	\$ 0.50
Outstanding as of March 31, 2009	6,482,922	\$ 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%	1.83	2.49%
Expected volatility	310%	203	615%
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 March 31, 2009 totaled \$3,498,417. 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 the remaining \$52,500 was expensed during the three-month period ended March 31, 2009. The remaining fair value of \$3,070,439 was issued in conjunction with our convertible notes and is recorded on our balance sheet as discount on convertible notes net of amortization of \$1,843,902.

During the three-month periods ended March 31, 2008 and 2009, we recorded interest expense related to the amortization of the discount on convertible notes of \$340,684 and \$353,891, respectively.

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**BIOLARGO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 5. 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 March 31, 2009 and December 31, 2008 there were no outstanding shares of our preferred stock.

Common Stock

As of December 31, 2008 and March 31, 2009 there were 42,261,268 and 42,349,018 shares of common stock outstanding, respectively. The increase in shares during the three-month period ended March 31, 2009 was due to (i) the issuance of 16,948 shares of our common stock to a director in exchange for his services as a director, and (ii) the issuance of 70,802 share of our common stock in payment of rent pursuant to our Sublease Agreement (see Note 10).

Note 6. 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.

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BIOLARGO, INC. AND SUBSIDIARY
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During the three-month period ended March 31, 2009, we granted options to purchase shares of our common stock which aggregated to 60,000 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 \$17,800, of which \$13,133 was expensed during the three-month period ended March 31, 2009 and the remaining \$4,667 is included on our balance sheet in accrued option compensation expense. Each option is exercisable for ten years from its respective date of grant.

During the three-month periods ended March 31, 2008 and 2009 we recorded an aggregate \$70,665 and \$439,202 in option compensation expense related to options issued pursuant to the 2007 Plan.

Activity for our stock options under the 2007 Plan for the three-month period ended March 31, 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	60,000	(60,000)	\$ 0.28	0.38	\$ 0.30
Exercised					
Canceled					
Balances, March 31, 2009	845,000	5,155,000	\$ 0.28	\$ 1.89	\$ 0.97

The following table summarizes the stock options issued under the 2007 Equity Plan outstanding at March 31, 2009.

Options Outstanding at March 31, 2009	Exercise Price	Life	Weighted		Currently Exercisable	
			Contractual	Exercise	Number of Shares at March 31, 2009	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	43,333	\$ 0.30

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 three-month periods ended March 31, 2008 and 2009 we recognized \$736,950 and \$148,500 of consulting expense, respectively.

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BIOLARGO, INC. AND SUBSIDIARY
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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 three-month periods ended March 31, 2008 and 2009 we recognized \$238,422 of compensation expense.

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 March 31, 2008 and 2009:

	Non plan		2007 Plan	
	Option			
Risk free interest rate	2.17	4.50%	2.75	4.72%
Expected volatility	800%		654	800%
Expected dividend yield				
Forfeiture rate				
Expected life in years	5		5	

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.

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BIOLARGO, INC. AND SUBSIDIARY
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Note 8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included the following:

	December 31, 2008	March 31, 2009
Accounts payable and accrued expenses	\$ 302,518	\$ 391,962
Accrued interest	560,031	609,666
Officer and Board of Director payable	130,882	232,715
 Total Accounts Payable and Accrued Expenses	 \$ 993,431	 \$ 1,234,343

The accrued interest as of December 31, 2008, includes \$380,658 of accrued and unpaid interest related to a note held by New Millennium Capital Partners, LLC (New Millennium), a related party, which was not included in the conversion of the principal and which balance will remain outstanding and will not accrue additional interest (see Notes 9 and 11). The remaining \$229,008 of accrued interest relates to the outstanding convertible notes. During the three-month periods ended March 31, 2008 and 2009, we recorded \$51,351 and \$49,635 of interest expense related to the convertible notes outstanding, respectively.

Note 9. Related Party Transactions**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. (See Note 11.)

Note 10. 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.

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**BIOLARGO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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 11. Subsequent Events

New Millennium Note

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.

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**BIOLARGO, INC. AND SUBSIDIARY
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Reduction of Payables

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.

Fall 2008 Offering

Subsequent to March 31, 2009, we received \$178,000 from four investors, and issued Fall 2008 Notes, the principal amount of which allow for conversion into an aggregate 356,000 shares of our common stock, issued Fall 2008 One-Year Warrants that allow purchase of up to an aggregate 356,000 shares of our common stock, and issued Fall 2008 Three-Year Warrants that allow purchase of up to an aggregate 356,000 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.

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

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

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 March 31, 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.

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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. 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 advantage being odor control. 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 the ability to eliminate odors, perform rapidly, and hold moisture more effectively than competing products. The Animal Bedding Additive and Cat Litter Additive also contain super absorbent materials, and extend the useful life of the customer s current bedding or litter products for their animal care needs. 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, with a focus on the animal bedding additive and the facilities and equipment wash for the animal health industry.

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Results of Operations Comparison of the three-month periods ended March 31, 2009 and 2008

We did not generate any revenues and incurred a net loss of \$1,708,416 in the three-month period ended March 31, 2009, of which \$913,183 consists of non-cash expenses related to the issuances of stock options, warrants and stock for services. During that time, we continued the development and test marketing of our Odor-No-More branded products, 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-month periods ended March 31, 2009 and 2008.

Selling, General and Administrative Expense

Selling, General and Administrative expenses were \$991,790 for the three-month period ended March 31, 2009, compared to \$1,912,214 for the three-month period ended March 31, 2008, a decrease of \$920,424. The largest components of these expenses were:

- a. Salaries and Payroll-related Expenses: These expenses were \$492,529 for the three-month period ended March 31, 2009, compared to \$467,934 for the three-month period ended March 31, 2008, an increase of \$24,595. There was no changes our management team and the increase is in line with the agreements in place with each officer.
- b. Consulting Expenses: These expenses were \$276,063 for the three-month period ended March 31, 2009, compared to \$1,124,825 for the three-month period ended March 31, 2008, a decrease of \$848,762. The decrease is primarily attributable to non-cash stock option compensation expense incurred in the three-month period ended March 31, 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-month period ended March 31, 2008 related to consultants and other professional advisors.
- c. Professional Fees: These expenses were \$86,195 for the three-month period ended March 31, 2009, compared to \$202,433 for the three-month period ended March 31, 2008, a decrease of \$116,238. The decrease in the three-month period ended March 31, 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 \$50,000 for the three-month period ended March 31, 2009, compared to \$0 for the three-month period ended March 31, 2008. The expenses incurred in 2009 were the result of payments made pursuant to the Marketing Agreement with Ioteq which was executed in September 2008.

Interest expense

Interest expense totaled \$403,526 for the three-month period ended March 31, 2009, compared to \$190,525 for the three-month period ended March 31, 2008, an increase of \$213,001. The increase in the three-month period ended March 31, 2009 is attributable to the amortization of the discount on convertible notes recorded in connection with our private convertible security offerings.

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Research and Development

Research and development expenses were \$36,929 for the three-month period ended March 31, 2009, compared to \$49,723 for the three-month period ended March 31, 2008, a decrease of \$12,794 which is consistent with the normal variations in our business.

Net Loss

Net loss for the three-month period ended March 31, 2009 was \$1,708,416, a loss of \$0.04 per share, compared to a net loss for the three-month period ended March 31, 2008 of \$2,416,263, a loss of \$0.06 per share. The decrease in net loss for the three-month period ended March 31, 2009 is primarily attributable to decreases in selling, general and administrative expenses, offset by an increase in interest 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 \$216,817 at March 31, 2009. We had negative working capital of \$3,019,907 for the three-month period ended March 31, 2009, compared with negative working capital of \$2,116,784 for the three-month period ended March 31, 2008. We had negative cash flow from operating activities of \$273,567 three-month period ended March 31, 2009, compared to a negative cash flow from operating activities of \$464,609 for the three-month period ended March 31, 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 \$1,708,416 for the three-month period ended March 31, 2009, and an accumulated stockholders' deficit of \$43,864,448 as of March 31, 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.

As of March 31, 2009 we had \$2,373,625 aggregate principal amount, together with \$229,008 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 March 31, 2009, we had \$624,677 in accrued and unpaid payables, including officer and director payables. Due to our limited cash resources, our payables increased during the three-month period ended March 31, 2009. In addition, as of March 31, 2009, we owed \$380,658 in accrued and unpaid interest to New Millennium Capital Partners, LLC, an entity controlled by Dennis P. Calvert, our President and Chief Executive Officer.

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We continue to be limited in terms of our capital resources. During the three-month period ended March 31, 2009, we received gross and net proceeds of \$400,000 pursuant to a private offering of our securities. Subsequent to March 31, 2009, we received an additional \$178,000 pursuant to a private offering of our securities.

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

In addition to the private securities offerings discussed above, we are continuing to explore numerous alternatives for our current and longer-term financial requirements, including additional raises of capital from investors in the form of convertible debt or equity. To fully implement our business plan, we believe that we must raise up to an additional \$10 million in financing. There can be no assurance that we will be able to raise any additional capital. No commitments are in place as of the date of the filing of this report for any such additional financings. Moreover, in light of the current unfavorable economic conditions, we do not believe that any such financing is likely to be in place in the immediate future.

It is also unlikely that we will be able to qualify for bank or other financial institutional debt financing until such time as our operations are considerably more advanced and we are able to demonstrate the financial strength to provide confidence for a lender, which we do not currently believe is likely to occur for at least the next 12 months or more. If we are unable to raise sufficient capital, we may be required to curtail some of our operations, including efforts to develop, test, market, evaluate and license our BioLargo technology. If we were forced to curtail aspects of our operations, there could be a material adverse impact on our financial condition and results of operations.

Obligation to New Millennium Capital Partners, LLC

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.

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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 any generated revenue will principally be derived 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.

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

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It the Company's policy to expense share based payments as of the date of grant in accordance with Financial Accounting Standards 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

In May 2008, the FASB issued the final version of Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments that may be Settled in Cash Upon Conversions (Including Partial Cash Settlement) (APB 14-1) that requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer's nonconvertible debt borrowing rate. APB 14-1 is effective for fiscal years beginning after December 15, 2008, which for the Company will be fiscal 2009, and interim periods within those fiscal years and must be applied retrospectively to all periods presented, which for the Company would include the comparative quarterly presentations for fiscal 2009. Accordingly, commencing in fiscal 2010, the Company will present prior period comparative results reflecting the impact of APB 14-1 if determined to apply to the Company at that time. The Company is currently evaluating the impact APB 14-1 will have on its consolidated financial statements, if any.

In April 2008, the FASB issued Staff Position No. FAS 142-3, Determination of the Useful Life of Intangible Assets (FAS 142-3) that amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. The intent of FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 and other U.S. generally accepted accounting principles. FAS 142-3 is effective for fiscal years and interim periods beginning after December 15, 2008. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements, if any.

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.

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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

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 March 31, 2009 we received subscriptions for proceeds of \$723,000 from seventeen investors. Of this amount, we received gross and net proceeds of \$460,000, of which \$60,000 was received during 2008 from four investors, and \$400,000 during the three-month period ended March 31, 2009 from eight investors, and issued *Fall 2008 Notes*, the principal amount of which allow for conversion into an aggregate 920,000 shares of our common stock.

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Subsequent to March 31, 2009, we received \$178,000 from four investors, and issued Fall 2008 Notes, the principal amount of which allow for conversion into an aggregate 526,000 shares of our common stock, issued Fall 2008 One-Year Warrants that allow purchase of up to an aggregate 526,000 shares of our common stock, and issued Fall 2008 Three-Year Warrants that allow purchase of up to an aggregate 526,000 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 and filed herewith:

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

SIGNATURES

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

BIOLARGO, INC.

Date: May 15, 2009

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

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EXHIBIT INDEX

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