

BIOLARGO, INC.  
Form 10-Q  
August 15, 2014  
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2014.**

**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 000-19709**

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**BIOLARGO, INC.**

*(Exact name of registrant as specified in its charter)*

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The number of shares of the Registrant's Common Stock outstanding as of August 12, 2014 was 80,959,722 shares.

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**BIOLARGO, INC.**

**FORM 10-Q**

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**PART I**

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**PART II**

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**Exhibit Index**

**Exhibit No. Description of Exhibit**

4.1	Option to purchase common stock issued to Charles K. Dargan dated June 23, 2014 (1)
4.2*	Form of Warrant to Purchase Common stock issued to investors in Summer 2014 Private Securities Offering
10.01†	Engagement Extension Agreement dated as of June 23, 2014 between BioLargo, Inc. and Charles K. Dargan, II. (1)
10.2*	License Agreement
Exhibit 31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13(a)-14 and 15(d)-14 under the Securities Exchange Act of 1934
Exhibit 31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13(a)-14 and 15(d)-14 under the Securities Exchange Act of 1934
Exhibit 101.INS**	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350. XBRL Instance
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation
101.DEF**	XBRL Taxonomy Extension Definition
101.LAB**	XBRL Taxonomy Extension Labels

101.PRE\*\* XBRL Taxonomy Extension Presentation

† Management contract or compensatory plan, contract or arrangement

\* Filed herewith

\*\* Furnished herewith

(1) Incorporated herein by reference from the Form 8-K filed by the Company on June 23, 2014.

Table Of Contents**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements****BIOLARGO, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****AS OF DECEMBER 31, 2013 AND JUNE 30, 2014**

	<b>December 31, 2013</b>	<b>June 30, 2014  (unaudited)</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$92,437	\$318,318
Accounts receivable, net of allowance	3,929	2,902
Inventory	29,830	24,730
Prepaid expense	—	45,000
Total current assets	126,196	390,950
OTHER ASSETS, net of amortization	40,997	35,537
<b>TOTAL ASSETS</b>	<b>\$167,193</b>	<b>\$426,487</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$407,157	\$331,281
Note payable	325,000	50,000
Customer deposit	—	100,000
Total current liabilities	732,157	481,281
<b>TOTAL LIABILITIES</b>	<b>732,157</b>	<b>481,281</b>

COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS (Note 12)

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STOCKHOLDERS' EQUITY (DEFICIT)

Convertible Preferred Series A, \$.00067 Par Value, 50,000,000 Shares Authorized, -0- Shares Issued and Outstanding, at December 31, 2013 and June 30, 2014.	—	—
Common Stock, \$.00067 Par Value, 200,000,000 Shares Authorized, 75,123,014 and 80,903,402 Shares Issued, at December 31, 2013 and June 30, 2014.	50,069	53,945
Additional Paid-In Capital	74,849,492	77,280,798
Accumulated Deficit	(75,327,603)	(77,448,410)
Non-controlling interest	(136,922 )	58,873
Total Stockholders' Equity (Deficit)	(564,964 )	(54,794 )
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$167,193	\$426,487

See accompanying notes to unaudited condensed consolidated financial statements

Table Of Contents**BIOLARGO, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2013 AND 2014**

	For the three-month periods		For the six-month periods	
	ended June 30,		ended June 30,	
	2013	2014	2013	2014
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue				
License revenue	\$ 100,000	\$—	\$ 100,000	\$—
Product revenue	19,983	21,086	34,346	30,373
Total revenue	119,983	21,086	134,346	30,373
Cost of goods sold	8,984	8,933	15,182	11,463
Gross (loss) margin	110,999	12,153	119,164	18,910
Costs and expenses				
Selling, general and administrative	475,273	948,663	934,910	1,556,029
Research and development	147,112	129,376	335,707	292,981
Amortization and depreciation	2,730	2,730	5,460	5,460
Total costs and expenses	625,115	1,080,769	1,276,077	1,854,470
Loss from operations	(514,116 )	(1,068,616 )	(1,156,913 )	(1,835,560 )
Interest expense, net	(235,528 )	(3,326 )	(238,028 )	(309,452 )
Net loss	\$(749,644 )	\$(1,071,942 )	\$(1,394,941 )	\$(2,145,012 )
Net loss (non-controlling interests)	\$(210,822 )	\$(14,122 )	\$(210,822 )	\$(24,205 )
Net loss (controlling interests)	\$(538,822 )	\$(1,057,820 )	\$(1,184,119 )	\$(2,120,807 )
Loss per common share – basic and diluted	\$(0.01 )	\$(0.01 )	\$(0.02 )	\$(0.03 )
Weighted average common share equivalents outstanding	72,633,696	76,693,189	72,020,069	78,275,663

See accompanying notes to unaudited condensed consolidated financial statements





Table Of Contents**BIOLARGO, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)  
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2014****(unaudited)**

	<b>Common Stock</b>		<b>Additional</b>	<b>Accumulated</b>	<b>Non-controlling</b>	
	<b>Number of</b>	<b>Par</b>	<b>Paid-In</b>	<b>Deficit</b>	<b>Interest</b>	<b>Total</b>
	<b>Shares</b>	<b>Value</b>	<b>Capital</b>			
		<b>\$.00067</b>				
BALANCE DECEMBER 31, 2013	75,123,014	\$50,069	\$74,849,492	\$(75,327,603 )	\$ (136,922 )	\$(564,964 )
Issuance of stock for cash received as part of Summer 2013 PPM @ \$0.25	3,248,400	2,180	775,320	—	—	777,500
Fees paid for Summer 2013 PPM	—	—	(12,500 )	—	—	(12,500 )
Issuance of stock to convert Note Payables and related accrued interest	1,360,000	911	583,889	—	—	584,800
Cash received from Clyra Spring 2014 PPM	—	—	—	—	220,000	220,000
Issuance of stock for cash received from Winter 2012 Warrant	374,288	250	186,894	—	—	187,144
Issuance of stock for cash received from Summer 2013 Warrant	200,000	134	59,866	—	—	60,000
Issuance of stock for services to consultants	313,209	210	229,047	—	—	229,257
Issuance of options for services to consultants	—	—	188,463	—	—	188,463
Issuance of stock for accrued and unpaid obligations to officers	284,491	191	166,416	—	—	166,607
Issuance of options for services and unpaid obligations to board of directors	—	—	253,911	—	—	253,911
Net loss for the six-month period ended June 30, 2014	—	—	—	(2,120,807 )	(24,205 )	(2,145,012)
BALANCE JUNE 30, 2014	80,903,402	\$53,945	\$77,280,798	\$(77,448,410 )	58,873	\$(54,794 )

See accompanying notes to unaudited condensed consolidated financial statements

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FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2013 AND 2014****(unaudited)**

	For the six-month periods ended June 30,	
	<b>2013</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Loss	\$(1,394,941)	\$(2,145,012)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Non-cash interest expense related to the amortization of the fair value of warrants issued in conjunction with our convertible notes	233,000	—
Non-cash expense related to options issued to board of directors	41,200	253,911
Non-cash expense related to common stock issued to officers in exchange for unpaid obligations	—	141,425
Non-cash expense related to options and warrants issued to vendors	57,400	188,463
Non-cash expense related to common stock issued to consultants	15,000	221,187
Non-cash expense related to common stock issued to convert interest related to our convertible notes	—	291,574
Amortization and depreciation expense	5,460	5,460
Increase (decrease) in cash from change in:		
Accounts receivable	(3,324 )	1,027
Inventory	13,037	5,100
Prepaid expenses	3,575	(45,000 )
Customer deposit	—	100,000
Other assets	(100,000 )	—
Accounts payable and accrued expenses	328,266	(26,898 )
Deferred revenue	(18,997 )	—
 Net Cash Used In Operating Activities	 (827,474 )	 (1,008,763)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from sale of stock	633,000	1,014,644
Proceeds from sale of stock in subsidiary	111,000	220,000
 Net cash provided by financing activities	 744,000	 1,234,644
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 (83,474 )	 225,881
CASH AND CASH EQUIVALENTS — BEGINNING	151,189	92,437

CASH AND CASH EQUIVALENTS — ENDING	\$67,715	\$318,318
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SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION

Cash Paid During the Period for:

Interest	\$—	\$6,733
Taxes	\$2,782	\$2,400

SUPPLEMENTAL DISCLOSURES OF NON-CASH OPERATING ACTIVITIES:

Conversion of accrued expenses to shares of our common stock:

Consultant obligations	\$34,530	\$229,257
Board of directors and officer obligations	\$—	\$166,607

Option or warrant issued to purchase shares of our common stock:

Consultant obligations	\$57,400	\$188,463
Board of directors and officer obligations	\$41,200	\$253,911

SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING AND INVESTING ACTIVITIES:

Fair value of the Winter 2012 warrant extension	\$233,000	\$—
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See accompanying notes to unaudited condensed consolidated financial statements

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

**Note 1. Business and Organization**

**Outlook**

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of our business. As reflected in the accompanying financial statements, we had a net loss of \$2,145,012 for the six-month period ended June 30, 2014, and at June 30, 2014, we had negative working capital of \$90,331, current assets of \$390,950, and an accumulated stockholders' deficit of \$77,448,410. The foregoing factors raise substantial doubt about our ability to continue as a going concern. Ultimately, our ability to continue as a going concern is dependent upon our ability to attract significant new sources of capital, attain a reasonable threshold of operating efficiencies and achieve profitable operations by licensing or otherwise commercializing products incorporating our technology. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

We have been, and anticipate that we will continue to be, limited in terms of our capital resources. Our total cash and cash equivalents were \$318,318 at June 30, 2014. We generated revenues of \$30,373 in the six-month period ended June 30, 2014, which amount was not sufficient to fund our operations. We generally have not had enough cash or sources of capital to pay our accounts payable and expenses as they arise, and have relied on the issuance of stock options and common stock, as well as extended payment terms with our vendors to operate. We will be required to raise substantial additional capital to expand our operations, including without limitation, hiring additional personnel, additional scientific and third-party testing, costs associated with obtaining regulatory approvals and filing additional patent applications to protect our intellectual property, and possible strategic acquisitions or alliances, as well as to meet our liabilities as they become due for the next 12 months.

As of June 30, 2014, we had \$50,000 principal amount outstanding on a note payable (see Note 10), and \$331,281 of outstanding accounts payable. (See Note 9.)

During the six-month period ended June 30, 2014, we received an aggregate \$1,244,644 gross and \$1,234,644 net proceeds pursuant to our private securities offerings, consisting of \$767,500 from our Summer 2013 offering, \$187,144 from the exercise of our Winter 2012 Warrants, \$60,000 from the exercise of our Summer 2013 Warrants, and \$220,000 from the Clyra Spring 2014 private securities offering. (See Note 4.)

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

The unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to Rule 8-03 of Regulation S-X under the Securities Act of 1933, as amended. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. We are still operating in the early stages of the sales and distribution process, and therefore our operating results for the six-month period ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ended December 31, 2013, or for any other period. These unaudited condensed consolidated financial statements and notes should be read in conjunction with the Company's audited financial statements and accompanying notes included in the Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission (the "SEC") on March 30, 2014.

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

**Note 2. Summary of Significant Accounting Policies**

**Inventory**

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

	<b>December 31, 2013</b>	<b>June 30, 2014</b>
Raw materials	\$26,080	\$18,429
Finished goods	3,750	6,301
Total inventory	\$29,830	\$24,730

**Other Assets**

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

For the six-month periods ended June 30, 2013 and 2014 we recorded amortization expense totaling \$5,460 and \$5,460, respectively.

We review intangible assets for potential impairment using our best estimates based on reasonable assumptions and projections. An impairment loss to write such assets down to their estimated fair values is necessary if the carrying values of the assets exceed their related undiscounted expected future cash flows. We also determine impairment whenever events or changes in circumstances indicate that their carrying values may not be recoverable. No impairment has been recorded for the period ended June 30, 2014.



**Use of Estimates**

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

**Share-based Payments**

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

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

During the six-month periods ended June 30, 2013 and 2014 we recorded an aggregate \$25,200 and \$25,200 in selling general and administrative expense related to options issued pursuant to the 2007 Plan.

During the six-month periods ended June 30, 2013 and 2014 we recorded an aggregate \$68,000 and \$358,213 in selling general and administrative expense related to options issued outside of the 2007 Plan.

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

During the six-month period ended June 30, 2014 we issued an aggregate 284,491 shares of our common stock to our officers in lieu of accrued and unpaid compensation and unreimbursed expenses totaling \$166,607. (See Note 9).

During the six-month periods ended June 30, 2013 and 2014 we issued an aggregate 106,776 and 313,209 shares of our common stock to third party vendors in lieu of accrued and unpaid compensation and unreimbursed expenses totaling \$34,530 and \$229,257, respectively. (See Note 9).

On March 28, 2014, we issued an aggregate 1,360,000 shares of our common stock to note payable holders in lieu of \$584,800 note payable principal balance and related accrued interest. (See Note 5).

**Non-Cash Transactions**

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

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

**Revenue Recognition**

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

### **Earnings (Loss) Per Share**

We report basic and diluted earnings (loss) per share (“EPS”) for common and common share equivalents. Basic EPS is computed by dividing reported earnings by the weighted average shares outstanding. Diluted EPS is computed by adding to the weighted average shares the dilutive effect if stock options and warrants were exercised into common stock. For the six-month periods ended June 30, 2013 and 2014, the denominator in the diluted EPS computation is the same as the denominator for basic EPS due to the anti-dilutive effect of the warrants and stock options on the Company’s net loss.

### **Recent Accounting Pronouncements**

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

### **Note 3. Customer Deposit**

In 2012, we executed a joint venture agreement with Peter Holdings Ltd., the principal funding source of the development of the Isan System, whereby we jointly purchased the intellectual property associated with the Isan System. In February 2014 we received a deposit of \$100,000 from InsulTech Manufacturing, LLC, an Arizona limited liability company d/b/a Clarion Water (“Clarion Water”) towards a worldwide, exclusive license of the Isan System. On August 12, 2014, we entered into a license agreement with Clarion Water in which we granted an exclusive license to commercialize the Isan System. (See Note 12.)

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

**Note 4. Private Securities Offerings**

**Summer 2013 Private Securities Offering**

Pursuant to a private offering of our common stock at a price of \$0.25 per share that commenced June 2013, through its expiration on March 31, 2014, we sold 3,370,000 shares of our common stock to 23 accredited investors and received \$842,500 gross and \$837,000 net cash proceeds from the sales. In addition, we received a subscription agreement for \$20,000 through an individual retirement account, the funds for which had not been received by June 30, 2014. Of the aggregate 3,370,000 shares sold in the offering, for the three-month period ended March 31, 2014, we sold 3,110,000 shares of our common stock and received \$767,500 gross proceeds from the sales. Fees related to this offering consisted of \$15,500 cash payments, \$34,600 were paid by issuing 138,400 shares of our common stock at an exercise price of \$0.25 per share. The share price on the grant date was \$0.47 resulting in additional expense of \$65,000, and an additional \$2,500 in fees are due in shares of our common stock.

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

**Clyra Spring 2014 Private Securities Offering**

On February 1, 2014, our subsidiary Clyra (see Note 11) began a private securities offering, selling up to 1,000 shares of its common stock at \$1,000 per share. From inception through June 30, 2014, Clyra sold 220 shares of its common stock to five accredited investor and received \$220,000 gross and net proceeds from the sale.

Each purchaser of stock will receive, for no additional consideration, (i) a stock purchase warrant entitling the holder to purchase the same number of shares of Clyra common stock as purchased in the offering for \$1,833.33 per share

until July 30, 2015, and (ii) a warrant issued by BioLargo that allows the holder to exchange one share of Clyra common stock for 4,000 shares of BioLargo common stock.

**Winter 2013 Private Securities Offering**

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

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

**Clyra Winter 2012 Private Securities Offering**

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

In April 2013, Clyra modified the terms of its offering, such that, in addition to shares of Clyra common stock, each Clyra investor would receive a warrant (“Clyra 2012 Warrants”) to purchase an additional number of shares of Clyra common stock as originally purchased by the investor, at a price of \$1,833 per share, until July 30, 2015. The offering terms were also modified to increase the number of shares of BioLargo common stock into which the Clyra investor could convert his or her Clyra shares, from 2,858 to 3,333 and 1/3 shares of BioLargo common stock. The number increased in September 2013 to 4,000 shares of BioLargo common stock. The date until which the investor may tender Clyra shares to BioLargo for conversion was extended to July 30, 2015. The Clyra investors will not receive any further warrants to purchase additional BioLargo common stock.

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

**Note 5. Conversion of Notes**

On March 26, 2014, we issued an aggregate 1,360,000 shares of our common stock, at a conversion price of \$0.25, as payment for an aggregate \$275,000 in principal and \$65,000 of accrued and unpaid interest expense for three promissory notes (originally issued on June 8, 2010, October 28, 2013, and November 15, 2013, detailed below). Our stock price on the date of issuance was \$0.43 per share, resulting in an additional fair value of \$244,800 which was recorded as interest expense.

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

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

On December 31, 2013, the note holder agreed to extend the maturity date of the note January 14, 2015. As consideration for the extension, we issued the noteholder 60,000 shares of our common stock at \$0.25 per share and recorded \$15,000 in interest expense, and a warrant to purchase 60,000 shares of common stock at \$0.30 cents per share, exercisable until January 14, 2017. The fair value of this warrant totaled \$14,412 and was recorded as interest expense. (See Note 6.) On March 26, 2014, this note was paid in full by the issuance of our common stock as detailed above.

On October 28, 2013, we received \$75,000 and issued a promissory note with a maturity date of October 31, 2014, which accrues interest at a rate of 10%. On March 26, 2014, this note was paid in full by the issuance of our common

stock as detailed above.

On November 15, 2013, we received \$100,000 and issued a promissory note with a maturity date of November 30, 2014, which accrues interest at a rate of 10%. On March 26, 2014, this note was paid in full by the issuance of our common stock as detailed above.

For the six-month period ended June 30, 2013 and 2014 we recorded interest expense of \$5,028 and \$58,088, respectively related to these converted notes.

#### Note 6. Warrants

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

	<b>Number of Shares</b>	<b>Price Range</b>
Outstanding as of December 31, 2012	8,390,741	\$0.125 – 2.00
Issued	2,838,329	\$0.50 – 1.00
Exercised	—	—
Expired	(1,275,298)	\$0.50 – 1.00
Outstanding as of June 30, 2013	9,448,772	\$0.125 – 1.00

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	<b>Number of Shares</b>	<b>Price Range</b>
Outstanding as of December 31, 2013	10,618,771	\$0.125 – 1.00
Issued	4,150,001	\$0.25 – 1.00
Exercised	(574,288 )	\$—
Expired	(6,111,362 )	\$0.50 – 1.00
Outstanding as of June 30, 2014	8,083,122	\$0.125 – 1.00

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:

	<b>2013</b>	<b>2014</b>
Risk free interest rate	.15 %	.11 %
Expected volatility	112 %	125 %
Expected dividend yield	—	—
Forfeiture rate	—	—
Contractual life in years	1	1

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

No warrants were issued in conjunction with debt or as compensation during the six-month periods ended June 30, 2013 and 2014, as such there is no corresponding expense related to the warrants issued.

**Summer 2013 Warrants**

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



On May 8, 2014, we received \$60,000 and issued 200,000 shares of our common stock from the exercise of a Summer 2013 Warrant.

**Clyra 2014 Warrants**

Pursuant to the terms of the Clyra 2014 Spring Offering (see Note 4), during the six-month period ended June 30, 2014 we issued warrants to purchase up to an aggregate 880,000 shares of our common stock to the investors in the Clyra 2014 Spring Offering. Pursuant to the terms of the warrant, Clyra investors may tender one share of Clyra common stock for 4,000 shares of BioLargo common stock. These warrants are set to expire July 30, 2015.

**Clyra 2012 Warrants**

In April 2013, Clyra modified the terms of its offering, such that, in addition to shares of Clyra common stock, each Clyra investor would receive a warrant (“Clyra 2012 Warrants”) to purchase an additional number of shares of Clyra common stock as originally purchased by the investor, at a price of \$1,833 per share, until July 30, 2015. The offering terms were also modified to increase the number of shares of BioLargo common stock into which the Clyra investor could convert his or her Clyra shares, from 2,858 to 4,000 shares of BioLargo common stock. We have issued warrants to purchase up to an aggregate 960,000 shares of our common stock to the investors in the Clyra Winter 2012 private securities offering. (See Note 4). The date until which the investor may tender Clyra shares to BioLargo for conversion was extended to July 30, 2015.

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

**Winter 2013 Warrants**

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

**Winter 2012 Warrant**

Pursuant to the terms of our Winter 2012 Offering, during 2012 we issued warrants to purchase up to an aggregate 3,127,914 shares of our common stock to the investors in the Offering. These warrants were set to expire on June 30, 2013 and have an exercise price of \$0.50 per share. On June 30, 2013, the expiration date of these warrants was extended by a period of one year, such that the warrants now expired on June 30, 2014.

During the six-month periods ended June 30, 2014 we sold 374,288 shares of our common stock in exchange for \$187,144 from the exercise of the Winter 2012 Warrant. The remaining warrants to purchase 2,553,626 shares of our common stock expired unexercised on June 30, 2014.

**Note 7. Stockholders' Equity**

**Preferred Stock**

Our certificate of incorporation authorizes our Board of Directors to issue preferred stock, from time to time, on such terms and conditions as they shall determine. As of December 31, 2013 and June 30, 2014 there were no outstanding shares of our preferred stock.

**Common Stock**

As of December 31, 2013 and June 30, 2014 there were 75,123,014 and 80,903,402 shares of common stock outstanding, respectively. The increase in shares during the six-month period ended June 30, 2014 is comprised of the following stock issuances: (i) 3,248,400 shares of our common stock issued in connection with our Summer 2013 Offering, (ii) 1,360,000 shares as of our common stock to convert Note Payables, (iii) 374,288 shares of our common stock issued from the exercise of our 2012 Warrants, (iv) 200,000 shares of our common stock from the exercise of our Summer 2013 Warrant, (v) 313,209 shares of our common stock to third-party vendors for services performed, and (vi) 284,491 shares of our common stock to officers in payment to consultants in lieu of accrued and unpaid obligations.

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

**2007 Equity Incentive Plan**

On August 7, 2007, and as amended April 29, 2011, our Board of Directors adopted the BioLargo, Inc. 2007 Equity Incentive Plan (“2007 Plan”) as a means of providing our directors, key employees and consultants additional incentive to provide services. Both stock options and stock grants may be made under this plan. The Compensation Committee administers this plan. The plan allows grants of common shares or options to purchase common shares. As plan administrator, the Compensation Committee has sole discretion to set the price of the options. The Compensation Committee may at any time amend or terminate the plan.

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## BIOLARGO, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

During the six-month period ended June 30, 2014, we recorded the issuance of an option to purchase an aggregate 40,000 shares of our common stock to our members of our Board of Directors, pursuant to the terms of the 2007 Equity Plan which calls for an annual automatic issuance. Each board member received an option to purchase 10,000 shares of our common stock, the option vests after a period of one year from the date of grant, expires ten years from the date of issuance, and is exercisable at \$0.63 per share, the price of our common stock on the grant date. The fair value of this option totaled \$25,200 and was recorded as selling, general and administrative expense.

During the six-month period ended June 30, 2013, we recorded the issuance of an option to purchase an aggregate 40,000 shares of our common stock to our members of our Board of Directors, pursuant to the terms of the 2007 Equity Plan which calls for an annual automatic issuance. Each board member received an option to purchase 10,000 shares of our common stock, the option vests after a period of one year from the date of grant, expires ten years from the date of issuance, and is exercisable at \$0.28 per share, the price of our common stock on the grant date. The fair value of this option totaled \$11,200 and was recorded as selling, general and administrative expense.

Activity for our stock options under the 2007 Plan for the six-month period ended June 30, 2013 and 2014 is as follows:

	<b>Options</b>	<b>Shares</b>	<b>Price</b>	<b>Weighted</b>
	<b>Outstanding</b>	<b>Available</b>	<b>per</b>	<b>Average</b>
			<b>share</b>	<b>Price per</b>
			<b>share</b>	<b>share</b>
Balances as of December 31, 2012	8,521,086	4,260,742	0.23 – 1.89	\$ 0.44
Granted	40,000	(40,000 )	0.28	0.28
Exercised	—	—	—	—
Canceled	—	—	—	—
Balances as of June 30, 2013	8,561,086	4,420,742	0.23 – 1.89	\$ 0.44

**Weighted**

	<b>Options</b>	<b>Shares</b>	<b>Average</b>	
	<b>Outstanding</b>	<b>Available</b>	<b>Price</b>	<b>Price per</b>
			<b>per</b>	<b>share</b>
			<b>share</b>	
Balances as of December 31, 2013	8,561,086	4,420,742	0.23 – 1.89	\$ 0.44
Granted	40,000	(40,000 )	0.63	0.63
Exercised	—	—	—	—
Canceled	—	—	—	—
Balances as of June 30, 2014	8,601,086	4,380,742	0.23 – 1.89	\$ 0.44

**Options issued Outside of the 2007 Equity Incentive Plan**

During the six-month periods ended June 30, 2013 and 2014 we recorded an aggregate \$68,000 and \$358,213 in selling general and administrative expense related to options issued outside of the 2007 Plan.

On June 24, 2014, we issued Options to purchase 103,847 shares of our common stock at an exercise price of \$0.65 per share to our board of directors in lieu of \$45,000 in accrued and unpaid fees. The fair value of the Options totaled \$67,501, resulting in \$22,501 of additional selling, general and administrative expenses.

On June 24, 2014, we issued Options to purchase 148,848 shares of our common stock at an exercise price of \$0.65 per share to vendors in lieu of \$64,500 in accrued and unpaid fees. The fair value of the Options totaled \$96,750, resulting in \$32,250 of additional selling, general and administrative expenses.

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

On June 23, 2014, BioLargo, Inc. (the “Company”) and its Chief Financial Officer Charles K. Dargan, II formally agreed to extend the engagement agreement dated February 1, 2008 (the “Engagement Agreement”, which had been previously extended multiple times), pursuant to which Mr. Dargan has been serving as the Company’s Chief Financial Officer. The Engagement Extension Agreement dated as of June 23, 2014 (the “Engagement Extension Agreement”) provides for an additional term to expire January 31, 2015 (the “Extended Term”), and is retroactively effective to February 1, 2014. During the Extended Term, Mr. Dargan shall be compensated through the issuance of an option to purchase 300,000 shares of the Company’s common stock, at a strike price of \$0.63 per share, to expire June 23, 2024, and to vest over the term of the engagement with 100,000 shares vested as of June 23, 2014, and the remaining shares to vest 25,000 monthly, provided that the Engagement Extension Agreement with Mr. Dargan has not been terminated prior to each vesting date. During the six-month period ended June 30, 2014, we recorded \$78,750 in selling, general and administrative expense for this option.

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

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

On February 20, 2014, we issued Options to purchase 40,000 shares of our common stock at an exercise price of \$0.35 per share, set to expire February 20, 2024, and to vest over the term of the agreement. The fair value of the Options totaled \$14,000 of additional selling, general and administrative expenses.

Activity of our stock options issued outside of the 2007 Plan for the six-month period ended June 30, 2013 and 2014 is as follows:

**Weighted  
Average**

	<b>Options</b>	<b>Price</b>	<b>Price per</b>
	<b>Outstanding</b>	<b>per</b>	<b>share</b>
		<b>share</b>	
Balances as of December 31, 2012	13,338,220	0.18 – 1.89	\$ 0.41
Granted	300,000	\$ 0.30	\$ 0.30
Exercised	—	—	—
Canceled	—	—	—
Balances as of June 30, 2013	13,638,220	0.185 – 1.89	\$ 0.41

	<b>Options</b>	<b>Weighted</b>	
	<b>Outstanding</b>	<b>Average</b>	
		<b>Price per</b>	
		<b>share</b>	
Balances as of December 31, 2013	16,398,395	0.18 – 1.00	\$ 0.39
Granted	816,532	0.43 – 0.65	0.43 – 0.65
Exercised	—	—	—
Canceled	—	—	—
Balances as of June 30, 2014	17,214,927	0.18 – 1.00	\$ 0.40

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## BIOLARGO, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

We recognize compensation expense for stock option awards on a straight-line basis over the applicable service period of the award, which is the vesting period. Share-based compensation expense is based on the grant date fair value estimated using the Black-Scholes Option Pricing Model. The following methodology and assumptions were used to calculate share based compensation for the six-month period ended June 30:

	2013		2014			
	<b>Non Plan</b>		<b>2007 Plan</b>	<b>Non Plan</b>	<b>2007 Plan</b>	
Risk free interest rate	2.19 – 2.64%		2.19	% 2.63 – 2.73%	2.63	%
Expected volatility	928	%	928	% 927 - 935	% 927	%
Expected dividend yield	—		—		—	
Forfeiture rate	—		—		—	
Expected life in years	7		7		7	

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

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

Historically, we have not had significant forfeitures of unvested stock options granted to employees and Directors. A significant number of our stock option grants are fully vested at issuance or have short vesting provisions. Therefore, we have estimated the forfeiture rate of our outstanding stock options as zero.



**Note 9. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses included the following:

	<b>December 31, 2013</b>	<b>June 30, 2014</b>
Accounts payable and accrued expenses	\$ 362,194	\$314,159
Accrued interest	18,226	9,868
Officer and board of director payables	26,737	7,254
Total accounts payable and accrued expenses	\$ 407,157	\$331,281

**Payment of Vendor Fees**

During the three- and six-month periods ended June 30, 2014 we issued an aggregate 289,629 and 451,610 shares of our common stock to vendors and consultants and incurred an aggregate expense of \$199,525 and \$255,820 associated with those issuances.

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

During the three- and six-month periods ended June 30, 2013 we issued an aggregate 64,684 and 106,776 shares of our common stock to vendors and consultants and incurred an aggregate expense of \$18,111 and \$28,641 associated with those issuances.

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

*Payment of Officer Salaries*

During the three-month period ended June 30, 2014, we issued an aggregate 200,997 shares of our common stock to our officers as payment for accrued and unpaid compensation totaling \$130,705. The stock was issued at the closing price of the Company's common stock on the day of issuance, \$0.65 per share.

During the three-month period ended March 31, 2014, we issued an aggregate 83,493 shares of our common stock to our officers as payment for accrued and unpaid compensation totaling \$35,902. The stock was issued at the closing price of the Company's common stock on the day of issuance, \$0.43 per share.

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

**Note 10. Note Payable**

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

For the six-month period ended June 30, 2013 and 2014 we recorded interest expense of \$0 and \$6,566, respectively.

**Note 11. Non-Controlling Interest**

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

Clyra has raised \$236,000 in proceeds through issuing 240 shares of its common stock during the year ended December 31, 2013 and raised an additional \$220,000 in proceeds through issuing 220 shares of its common stock during the six-month period ended June 30, 2014. (See Note 4). The holdings of the executive officers and investors represent 20.7% of the issued and outstanding stock of the company.

## **Note 12. Subsequent Events.**

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

### **Isan System License Agreement**

In 2012, we executed a joint venture agreement with Peter Holdings Ltd., the principal funding source of the development of the Isan System, whereby we jointly purchased the intellectual property associated with the Isan System. In February 2014 we received a deposit of \$100,000 from InsulTech Manufacturing, LLC, an Arizona limited liability company d/b/a Clarion Water (“Clarion Water”) towards a worldwide, exclusive license of the Isan System. On August 12, 2014, we entered into a license agreement with Clarion Water in which we granted an exclusive license to commercialize the Isan System. (See Note 12.) The license agreement provides that the \$100,000 deposit is non-refundable, and is to be credited to future payments of royalties or sublicense fees due under the license agreement. The agreement further provides for a 10% royalty of licensee’s “net sales revenue”, and 40% of sublicensing fees. Licensee is required to make minimum payments beginning July 1, 2016, of \$50,000 per quarter, and we are obligated to share any revenues under the agreement on an equal basis with Peter Holdings Pty. Ltd. The intellectual property subject to the license agreement includes all intellectual property related to the Isan System, including all patents, trademarks, proprietary knowledge, and other similar know-how or rights relating to or arising out of the Isan System or the patents related to the Isan System. The agreement contains other terms and conditions typically found in intellectual property license agreements.

### **Summer 2014 Private Securities Offering**

On June 25, 2014, we began a private offering of our common stock at a price of \$0.50 per share (“Summer 2014 Offering”). Each purchaser of stock will receive, for no additional consideration, a stock purchase warrant which entitles the holder to purchase a number of additional shares of our common stock equal to the number of shares originally purchased. The warrant is exercisable at \$0.75 per share, will expire on July 31, 2019, and is subject to a call provision in the event (i) the closing price of the Common Stock for each of twenty (20) consecutive business days, exceeds \$1.50 per share (subject to adjustment for forward and reverse stock splits, recapitalizations, stock dividends and the like after the date of issuance of this Warrant), (ii) the Restricted Stock is subject to resale pursuant to 17 C.F.R. 230.144 (“Rule 144”) or pursuant to any other exemption from registration under to the Securities Act of 1933, as amended and (iii) the Shares underlying the Warrant are registered with the SEC.

Subsequent to June 30, 2014, we sold 150,000 shares of our common stock to two accredited investors, and received gross and net proceeds of \$75,000 and \$74,250, and issued warrants to purchase an additional 150,000 shares of our common stock.

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

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

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

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

Such statements, which include statements concerning future revenue sources and concentrations, selling, general and administrative expenses, research and development expenses, capital resources, additional financings and additional losses, are subject to risks and uncertainties, including, but not limited to, those discussed elsewhere in this Form

10-Q, that could cause actual results to differ materially from those projected.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013. Unless otherwise expressly stated herein, all statements, including forward-looking statements, set forth in this Form 10-Q are as of June 30, 2014, unless expressly stated otherwise, and we undertake no duty to update this information.

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

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

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

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

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

### Water Treatment

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

The proof-of-claim work recently completed at the University of Alberta verifies that our AOS technology can be highly effective in addressing the issues of oil sands processed water. We have been able to show performance results



(dismantling contaminants from a flow of water) at an efficiency level that has never before been seen commercially. In May 2014 we announced that the AOS filter has been proven successful at replicating earlier proof of claim results and confirmed the role of advanced oxidation within the AOS filter reactor. The pilot work included bench-scale testing of contaminated water taken from actual field operations and it has proven the AOS filter's effectiveness at dismantling and removing targeted naphthenic acids, which are considered high-value and hard to contain contaminants of keen interest to the oil sands industry for more than 15 years.

The Department of Agricultural, Food and Nutritional Science at the University of Alberta has agreed to expand the AOS Filter pilot testing into areas of interest in food processing and agricultural production, including livestock related areas. The initial targets include clean in place (CIP), carcass and food washing and animal drinking water applications.

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

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**Commercial, Household and Personal Care Products**

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

In May 2014, our line of “Suction Canister Solidifiers” were issued U.S. Government “National Stocking Numbers”, making them available for order by various government and military agencies, and the Army Medical Material Agency (USAMMA) will include the "Suction Canister Solidifiers" for use in triage and surgery in future U.S. Army troop deployments.

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

**Advanced Wound Care – Clyra Medical Technologies Subsidiary**

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

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

**Intellectual Property**

In the first six-months of the year ending December 31, 2014, we've been awarded the following four patents:

U.S. Patent 8,642,057 issued on February 14, 2014, titled "Antimicrobial and Antiodor Solutions and Delivery Systems" relating to our liquid antimicrobial solutions, including our gels, sprays and liquids imbedded into wipes and other substrates.

U.S. States Patent 8,679,515 issued on March 25, 2014, titled "Activated Carbon Associated with Alkaline or Alkali Iodide", which provides protection for our BioLargo® AOS filter.

U.S. Patent 8,734,559 issued on May 27, 2014, relating to the moderation of animal waste environments.

U.S. Patent 8,757,253 issued on June 24, 2014, relating to the moderation of oil extraction waste environments.

The three most recent patents validate and further protect our advanced iodine technology, which utilizes iodine chemistry and polymer science for providing increased performance and functionality of flocculants to bind and extract contaminants and to enhance odor and microbial control. The patents focus on our applications within oil and gas waste streams and agriculture waste streams.

**Results of Operations—Comparison of the three and six-month periods ended June 30, 2014 and 2013.**

**Revenue**

We generated \$21,086 and \$30,373 in product revenues during the three and six-month periods ended June 30, 2014, and \$19,983 and \$34,346 in product revenues during the three and six-month periods ended June 30, 2013. In addition, in the three-month period ended June 30, 2013 we recorded \$100,000 in license revenue from a customer

deposit (related to a 2011 transaction with Central Garden & Pet). Our product revenue in the three and six-month periods ended June 30, 2013, consisted primarily of sales of our Deodorall branded sports equipment spray, and Odor-No-More branded products. Our product revenue for the three and six-month periods ended June 30, 2014, consisted primarily of sales of our Odor-No-More branded products. .

**Cost of Goods Sold**

Excluding the \$100,000 of license revenue, our cost of goods sold was \$8,933 or 42% and \$11,463 or 38% of revenues for the three and six-month periods ended June 30, 2014, as compared with \$8,984 or 45% and \$15,182 or 43% of revenues for the three and six-month periods ended June 30, 2013. Our cost of goods sold includes costs of raw materials, contract manufacturing, and proportions of salaries and expenses related to the sales and marketing efforts of our Odor-No-More branded products. Because we have not achieved a meaningful revenue base, and our number of products is increasing, the inclusion of the fixed costs related to the product development and manufacturing increases our cost of goods disproportionately, resulting in high percentage fluctuations.

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**Selling, General and Administrative Expense**

Selling, General and Administrative expenses were \$948,663 and \$1,556,029 for the three and six-month periods ended June 30, 2014, compared to \$475,273 and \$934,910 for the three and six-month periods ended June 30, 2013, an increase of \$473,390 and \$621,119. The increase in 2014 is primarily attributable to the non-cash expense associated with the stock options and common stock issued during 2014. Our net cash used in operating activities increased \$181,289 in the six-month period ended June 30, 2014 as compared with the same period in 2013. The largest components of our selling general and administrative expenses were:

a. Salaries and Payroll-related Expenses: These expenses were \$191,959 and \$336,283 for the three and six-month periods ended June 30, 2014, compared to \$145,620 and \$261,240 for the three and six-month periods ended June 30, 2013, an increase of \$46,339 and \$75,043. The increase is primarily related to additional non-cash expense related to the option issued to our Chief Financial Officer in 2014.

b. Consulting Expenses: These expenses were \$169,349 and \$309,760 for the three and six-month periods ended June 30, 2014, compared to \$61,517 and \$183,216 for the three and six-month periods ended June 30, 2013, an increase of \$107,832 and \$126,544. As noted above, the increase is primarily attributable to the non-cash expense associated with the stock options and common stock issued in 2014.

c. Professional Fees: These expenses were \$103,900 and \$180,932 for the three and six-month periods ended June 30, 2014, compared to \$86,591 and \$161,916 for the three and six-month periods ended June 30, 2013, an increase of \$17,309 and \$23,766.

d. Investor Relations. These expenses were \$196,837 and \$264,807 for the three and six-month periods ended June 30, 2014, compared to \$705 and \$8,733 for the three and six-month periods ended June 30, 2013, an increase of \$196,132 and \$256,074. The increase is due to the retention of an investor and public relations firm that began work in January 2014.

**Research and Development**

Research and development expenses were \$129,376 and \$292,981 for the three and six-month periods ended June 30, 2014, compared to \$147,112 and \$335,707 for the three and six-month periods ended June 30, 2013, a decrease of \$17,736 and \$42,726, respectively. The research and development levels are consistent with the expansion of our

technology into the wound care and water treatment industries.

**Interest expense**

Interest expense totaled \$3,336 and \$309,452 for the three and six-month periods ended June 30, 2014, compared to \$235,528 and \$238,028 for the three and six-month periods ended June 30, 2013, a decrease of \$232,202 and an increase of \$71,424. The decrease for the three-month period is the result of the fair value of the winter 2012 Warrant one-year extension of \$233,000 issued in 2013 and the increase for the six-month period is due to the interest expense related to the conversion of our note payables in the first quarter of 2014.

**Net Loss**

Net loss for the three and six-month periods ended June 30, 2014 was \$1,071,942 and \$2,145,012, a loss of \$0.01 and \$0.03 per share, compared to a net loss for the three and six-month periods ended June 30, 2013 of \$749,644 and \$1,394,941, a loss of \$0.01 and \$0.02 per share. The net loss per share is remaining consistent because the increase in expenses are offset by the increase in the weighted average number of shares issued and 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 \$318,318 at June 30, 2014. Of this amount, \$77,592 is held in our subsidiary Clyra. Also at June 30, 2014, Clyra has an intercompany balance due to BioLargo of \$114,179, resulting from previous expenses we paid on Clyra's behalf. As such, Clyra is continuing to seek capital to fund its on-going research and development efforts as well as to reimburse us for prior expenditures. (See Item II below.) We had negative working capital of \$90,331 as of June 30, 2014, compared with negative working capital of \$605,961 as of December 31, 2013. We had negative cash flow from operating activities of \$1,008,763 for the six-month period ended June 30, 2014, compared to a negative cash flow from operating activities of \$827,474 for the six-month period ended June 30, 2013. We used cash from financing activities to fund operations. Our cash position is insufficient to meet our continuing anticipated expenses or fund anticipated operating expenses. Accordingly, we will be required to raise significant additional capital to sustain operations and further implement our business plan and we may be compelled to reduce or curtail certain activities to preserve cash.

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The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of our business. As reflected in the accompanying financial statements, we had a net loss of \$2,145,012 for the six-month period ended June 30, 2014, and an accumulated stockholders' deficit of \$77,448,410 as of June 30, 2014. The foregoing factors raise substantial doubt about our ability to continue as a going concern. Ultimately, our ability to continue as a going concern is dependent upon our ability to attract significant new sources of capital, attain a reasonable threshold of operating efficiencies and achieve profitable operations by licensing or otherwise commercializing products incorporating our BioLargo technology. The accompanying condensed consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

As of June 30, 2014, we had \$50,000 principal amount outstanding on a note payable (see Note 11), and \$331,281 of outstanding accounts payable. (See Note 9.)

During the six-month period ended June 30, 2014, we received an aggregate \$1,244,644 gross and \$1,234,644 net proceeds pursuant to our private securities offerings, consisting of \$767,500 from our Summer 2013 offering, \$187,144 from the exercise of our Winter 2012 Warrants, \$60,000 from the exercise of our Summer 2013 Warrants, and \$220,000 from the Clyra Spring 2014 private securities offering. (See Note 4.)

We will be required to raise substantial additional capital to expand our operations, including without limitation, hiring additional personnel, additional scientific and third-party testing, costs associated with obtaining regulatory approvals and filing additional patent applications to protect our intellectual property, and possible strategic acquisitions or alliances, as well as to meet our liabilities as they become due for the next 12 months. We may also be compelled to reduce or curtail certain activities to preserve cash. We have been, and may continue to be, required to financially support the operations our subsidiaries, none of which are operating at a positive cash flow.

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

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

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

### **Critical Accounting Policies**

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



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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.

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

## **Recent Accounting Pronouncements**

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

## **Inflation**

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

## **Item 4. Controls and Procedures**

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

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

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

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

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**PART II**

**OTHER INFORMATION**

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

**Summer 2013 Private Securities Offering**

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

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

**Clyra Spring 2014 Private Securities Offering**

On February 1, 2014, our subsidiary Clyra (see Note 4) began a private securities offering, selling up to 1,000 shares of its common stock at \$1,000 per share. From inception through June 30, 2014, Clyra sold 220 shares of its common stock to five accredited investor and received \$220,000 gross and net proceeds from the sale.

Each purchaser of stock will receive, for no additional consideration, (i) a stock purchase warrant entitling the holder to purchase the same number of shares of Clyra common stock as purchased in the offering for \$1,833.33 per share

until July 30, 2015, and (ii) a warrant issued by BioLargo that allows the holder to exchange one share of Clyra common stock for 4,000 shares of BioLargo common stock.

**Summer 2014 Private Securities Offering**

On June 25, 2014, we began a private offering of our common stock at a price of \$0.50 per share (“Summer 2014 Offering”). Each purchaser of stock will receive, for no additional consideration, a stock purchase warrant which entitles the holder to purchase a number of additional shares of our common stock equal to the number of shares originally purchased. The warrant is exercisable at \$0.75 per share, will expire on July 31, 2019, and is subject to a call provision in the event (i) the closing price of the Common Stock for each of twenty (20) consecutive business days, exceeds \$1.50 per share (subject to adjustment for forward and reverse stock splits, recapitalizations, stock dividends and the like after the date of issuance of this Warrant), (ii) the Restricted Stock is subject to resale pursuant to 17 C.F.R. 230.144 (“Rule 144”) or pursuant to any other exemption from registration under to the Securities Act of 1933, as amended and (iii) the Shares underlying the Warrant are registered with the SEC.

**Payment of Vendor Fees**

On June 26, 2014 we issued 90,000 shares of our common stock to a company providing ongoing services pursuant to a contract effective January 1, 2014, as payment for services totaling \$22,500. The agreement required we issue common stock at a rate of \$0.25 per share, although the stock price on the grant date was \$0.63 per share, resulting in additional expense of \$34,200.

On June 24, 2014 we issued 11,539 shares of our common stock to a consultant as payment for services totaling \$7,500. The stock price on the grant date was \$0.65 per share.

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On April 27, 2014 we issued an aggregate 138,400 shares of our common stock as payment for services to four vendors totaling \$34,600. Our agreements with these vendors required we issue common stock at a rate of \$0.25 per share, although the stock price on the grant date was \$0.72 per share resulting in additional expense of \$65,000.

On June 30, 2014, we issued an aggregate 31,096 shares of our common stock to a vendor as payment for services totaling \$25,000. Our agreement with the vendor required we issue common stock at a 20 day average price, which in this instance was approximately \$0.80 per share.

On June 30, 2014, we issued 18,594 shares of our common stock to a vendor as payment for services totaling \$10,725. Our agreement with the vendor required we issue common stock at a 20 day average price, which in this instance was approximately \$0.61 per share.

On June 24, 2014, we issued options to purchase 103,847 shares of our common stock at an exercise price of \$0.65 per share to our board of directors in lieu of \$45,000 in accrued and unpaid fees. The fair value of the Options totaled \$67,501, resulting in \$22,501 of additional selling, general and administrative expenses.

On June 24, 2014, we issued options to purchase 148,848 shares of our common stock at an exercise price of \$0.65 per share to vendors in lieu of \$64,500 in accrued and unpaid fees. The fair value of the Options totaled \$96,750, resulting in \$32,250 of additional selling, general and administrative expenses.

**Exercise of Stock Purchase Warrants**

On May 7, 2014, we received \$60,000 proceeds from the holder of a stock purchase warrant issued in our Summer 2013 Offering, and issued 200,000 shares of our common stock pursuant to the terms of the warrant.

On June 10, 2014, we received an aggregate \$30,000 proceeds from the holders of stock purchase warrants issued in our private securities offering that commenced January 2012 (the "Winter 2012 Offering"), and issued an aggregate 60,000 shares of our common stock pursuant to the terms of the warrants.

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On June 23, 2014, we received \$14,286 proceeds from the holder of a stock purchase warrant issued in our Winter 2012 Offering, and issued 28,572 shares of our common stock pursuant to the terms of the warrant.

On June 26, 2014, we received \$10,000 proceeds from the holder of a stock purchase warrant issued in our Winter 2012 Offering, and issued 20,000 shares of our common stock pursuant to the terms of the warrant.

On June 27, 2014, we received \$71,429 proceeds from the holder of a stock purchase warrant issued in our Winter 2012 Offering, and issued 142,858 shares of our common stock pursuant to the terms of the warrant.

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On June 30, 2014, we received an aggregate \$61,429 proceeds from holders of stock purchase warrants issued in our Winter 2012 Offering, and issued an aggregate 122,858 shares of our common stock pursuant to the terms of the warrant.

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 5. Other Information**

### **Isan License Agreement**

In 2012, we executed a joint venture agreement with Peter Holdings Ltd., the principal funding source of the development of the Isan System, whereby we jointly purchased the intellectual property associated with the Isan System. In February 2014 we received a deposit of \$100,000 from InsulTech Manufacturing, LLC, an Arizona limited liability company d/b/a Clarion Water (“Clarion Water”) towards a worldwide, exclusive license of the Isan System. On August 12, 2014, we entered into a license agreement with Clarion Water in which we granted an exclusive license to commercialize the Isan System. The license agreement provides that the \$100,000 deposit is non-refundable, and is to be credited to future payments of royalties or sublicense fees due under the license agreement. The agreement further provides for a 10% royalty of licensee’s “net sales revenue”, and 40% of sublicensing fees. Licensee is required to make minimum payments beginning July 1, 2016, of \$50,000 per quarter, and we are obligated to share any revenues under the agreement on an equal basis with Peter Holdings Pty. Ltd. The intellectual property subject to the license agreement includes all intellectual property related to the Isan System, including all patents, trademarks, proprietary knowledge, and other similar know-how or rights relating to or arising out of the Isan System or the patents related to the Isan System. The agreement contains other terms and conditions typically found in intellectual property license agreements.

### **Annual Stockholder’s Meeting**

The Company held its 2014 annual stockholder meeting on June 23, 2014. The following matters were each submitted to a vote of stockholders through the solicitation of proxies or otherwise:

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(1) A proposal to elect the following seven individuals to our Board of Directors: Dennis P. Calvert, Kenneth R. Code, Gary A. Cox, Dennis E. Marshall, Joseph L. Provenzano, Kent C. Roberts II, and John S. Runyan.

(2) Advisory approval of the Company's executive compensation.

(3) A proposal to ratify the appointment of Haskell & White LLP as our independent registered public accounting firm for the year ending December 31, 2014.

The voting results from the 2014 Annual Stockholders Meeting are as follows:

<b>Item Nominee:</b>	<b>Votes For</b>	<b>Votes Against</b>	<b>Votes Withheld</b>	<b>Abstentions</b>	<b>Broker Non Vote</b>
<b>Election of Directors</b>					
Dennis P. Calvert	36,118,389	-	129,460	-	10,561,245
Kenneth R. Code	36,118,389	-	129,460	-	10,561,245
Gary A. Cox	35,724,874	-	522,975	-	10,561,245
Dennis E. Marshall	36,146,069	-	101,780	-	10,561,245
Joseph L. Provenzano	36,118,389	-	129,460	-	10,561,245
Kent C. Roberts II	36,146,069	-	101,780	-	10,561,245
John S. Runyan	36,146,069	-	101,780	-	10,561,245
<b>Advisory Vote – Exec Comp.</b>	33,950,336	2,120,882	-	176,631	10,561,245
<b>Ratification of Accounting Firm</b>	44,948,131	200	-	1,860,763	-

There were no director nominees other than as set forth above.



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**Item 6. Exhibits**

The exhibits listed below are attached hereto:

**Exhibit No. Description of Exhibit**

4.1	Option of purchase common stock issued to Charles K. Dargan dated June 23, 2104 (1)
4.2*	Form of Warrant to Purchase Common stock issued to investors in Summer 2014 Private Securities Offering
10.01†	Engagement Extension Agreement dated as of June 23, 2014 between BioLargo, Inc. and Charles K. Dargan, II (1)
10.2*	License Agreement dated August 8, 2014
Exhibit 31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13(a)-14 and 15(d)-14 under the Securities Exchange Act of 1934
Exhibit 31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13(a)-14 and 15(d)-14 under the Securities Exchange Act of 1934
Exhibit 32*	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.
101.INS**	XBRL Instance
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation
101.DEF**	XBRL Taxonomy Extension Definition
101.LAB**	XBRL Taxonomy Extension Labels
101.PRE**	XBRL Taxonomy Extension Presentation

† Management contract or compensatory plan, contract or arrangement

\* Filed herewith

\*\* Furnished herewith

(1) Incorporated herein by reference from the Form 8-K filed by the Company on June 23, 2014.

## SIGNATURES

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

BIOLARGO, INC.

Date: August 15, 2014 By: /s/ DENNIS P. CALVERT  
Dennis P. Calvert

Chief Executive Officer

Date: August 15, 2014 By: /s/ CHARLES K. DARGAN, II  
CHARLES K. DARGAN, II

Chief Financial Officer

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101.CAL**	XBRL Taxonomy Extension Calculation
101.DEF**	XBRL Taxonomy Extension Definition
101.LAB**	XBRL Taxonomy Extension Labels
101.PRE**	XBRL Taxonomy Extension Presentation

† Management contract or compensatory plan, contract or arrangement

\* Filed herewith

\*\* Furnished herewith

(1) Incorporated herein by reference from the Form 8-K filed by the Company on June 23, 2014.

