BIOLARGO, INC.
Form 10-Q
May 17, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017.

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

BIOLARGO, INC.

(Exact name of registrant as specified in its charter)

Delaware	**65-0159115**
(State or other jurisdiction of	***(I.R.S. Employer***

incorporation or organization) ***Identification No.)***

14921 Chestnut St.

Westminster, CA 92683

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

(949) 643-9540

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of the Registrant's Common Stock outstanding as of May 15, 2017 was 99,040,328 shares.

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BIOLARGO, INC.

FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

BIOLARGO, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2016 AND MARCH 31, 2017

	DECEMBER 31, 2016	**MARCH 31, 2017 (Unaudited)**
Assets		
Current assets:		
Cash and cash equivalents	$ 1,910,153	$ 1,175,525
Accounts receivable, net of allowance of $0 and $15,000	67,994	62,436
Inventories	34,446	24,628
Prepaid expenses and other current assets	4,089	147,382
Total current assets	2,016,682	1,409,971
Equipment, net of depreciation	59,315	54,121
Other non-current assets, net of amortization	36,729	33,999
Total assets	$ 2,112,726	$ 1,498,091
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable and accrued expenses	$ 200,103	$ 236,699
Accrued officer bonus	80,000	—
Convertible notes payable	560,000	280,000
Discount on convertible notes payable, net of amortization	(398,910)	(267,860)
Derivative warrant liability	663,560	397,960
Line of credit	50,000	50,000
Total current liabilities	1,154,753	696,799
Long-term liabilities:		
Convertible notes payable	5,250,668	5,255,668
Discount on convertible notes payable and line of credit, net of amortization	(3,522,497)	(3,007,423)
Line of Credit	—	175,000
Total liabilities	2,882,924	3,120,044

COMMITMENTS, CONTINGENCIES (Note 9)		
STOCKHOLDERS' DEFICIT:		
Convertible Preferred Series A, $.00067 Par Value, 50,000,000 Shares Authorized, - no Shares Issued and Outstanding, at December 31, 2016 and March 31, 2017	—	—
Common stock, $.00067 Par Value, 200,000,000 Shares Authorized, 92,975,970 and 94,988,597 Shares Issued, at December 31, 2016 and March 31, 2017	62,179	63,536
Additional paid-in capital	90,609,774	91,828,114
Accumulated deficit	(91,915,426)	(93,912,246)
Accumulated other comprehensive loss	(81,694)	(93,070)
Total Biolargo, Inc. and Subsidiaries stockholders' deficit	(1,325,167)	(2,113,666)
Non-controlling interest (Note 8)	554,969	491,713
Total stockholders' deficit	(770,198)	(1,621,953)
Total liabilities and stockholders' deficit	$2,112,726	$1,498,091

See accompanying notes to unaudited consolidated financial statements.

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BIOLARGO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE LOSS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2017

(UNAUDITED)

	MARCH 31, 2016	**MARCH 31, 2017**
Revenues	$ 13,942	$ 46,017
Cost of revenues	(6,081)	(22,530)
Gross profit	7,861	23,487
Selling, general and administrative expenses	930,907	1,055,055
Research and development	351,050	391,336
Amortization	2,730	7,924
Total operating expenses	1,284,687	1,454,315
Operating loss	(1,276,826)	(1,430,828)
Other (expense) income:		
Interest expense	(406,325)	(953,636)
Change in fair value of derivative warrant liability	—	265,600
Grant income	38,758	58,788
Total other expense:	(367,567)	(629,248)
Net loss	(1,644,393)	(2,060,076)
Net loss attributable to noncontrolling interest	(66,972)	(63,256)
Net loss attributable to common shareholders	$ (1,577,421)	$ (1,996,820)
Net loss per share attributable to common shareholders:		
Loss per share attributable to shareholders – basic and diluted	$ (0.02)	$ (0.02)
Weighted average number of common shares outstanding:	85,847,219	94,444,945
Comprehensive loss:		
Net loss	$ (1,644,393)	$ (2,060,076)
Foreign currency translation	(9,318)	(11,376)

Comprehensive loss	(1,653,711)	(2,071,452)
Comprehensive loss attributable to noncontrolling interest	(66,972)	(63,256)
Comprehensive loss attributable to common shareholders	$(1,586,739)	$(2,008,196)

See accompanying notes to unaudited consolidated financial statements.

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BIOLARGO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
FOR THE THREE MONTHS ENDED MARCH 31, 2017

(UNAUDITED)

	Common stock		Additional paid-in	Accumulated	Accumulated other	Non-controlling	
	Shares	Amount	capital	deficit	comprehensive loss	interest	Total
Balance, December 31, 2016	92,975,970	$62,179	$90,609,774	$(91,915,426)	$(81,694)	$554,969	$(770,198)
Conversion of notes	1,047,678	703	399,297	—	—	—	400,000
Vendors and Interest	454,949	311	261,098	—	—	—	261,409
Exercise of Warrants	510,000	343	152,657	—	—	—	153,000
Stock option compensation expense	—	—	280,288	—	—	—	280,288
Fair value of warrants and conversion feature issued as discount on convertible notes payable	—	—	125,000	—	—	—	125,000
Net loss	—	—	—	(1,996,820)	—	(63,256)	(2,060,076)
Foreign currency translation	—	—	—	—	(11,376)	—	(11,376)
Balance, March 31, 2017	94,988,597	$63,536	$91,828,114	$(93,912,246)	$(93,070)	$491,713	$(1,621,953)

See accompanying notes to unaudited consolidated financial statements.

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BIOLARGO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2017

(UNAUDITED)

	March 31, 2016	**March 31, 2017**
Cash flows from operating activities		
Net loss	$(1,644,393)	$(2,060,076)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock option compensation expense	301,839	280,288
Common stock issued for interest and fees for services from consultants	173,150	261,409
Interest expense related to amortization of the discount on convertible notes payable	298,771	771,124
Bad debt expense	—	15,000
Change in derivative liability	—	(265,600)
Amortization expense	2,730	7,924
Changes in assets and liabilities:		
Accounts receivable	14,382	(9,442)
Inventories	5,462	9,818
Prepaid expenses and other current assets	(43,366)	(143,293)
Deposits	(35,000)	—
Accounts payable and accrued expenses	(60,081)	36,596
Officer bonus	—	(80,000)
Net cash used in operating activities	(986,506)	(1,176,252)
Cash flows from financing activities		
Proceeds from convertible notes	255,000	125,000
Proceeds from line of credit	—	175,000
Proceeds from exercise of warrants	—	153,000
Net cash provided by financing activities	255,000	453,000
Effect of foreign currency translation	(9,318)	(11,376)
Net change in cash and cash equivalents	$(740,824)	$(734,628)
Cash and cash equivalents at beginning of period	$1,763,114	$1,910,153
Cash and equivalents at end of period	$1,022,290	$1,175,525
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Income taxes	$4,000	$5,350
Non-cash investing and financing activities:		
Conversion of accounts payable into stock options	$206,934	$141,763

Fair value of warrants issued in conjunction with convertible notes payable	$255,000	$125,000
Settlement of accounts payable and interest in shares of common stock	$173,150	$261,409
Convertible notes into shares of common stock	$—	$400,000

See accompanying notes to unaudited consolidated financial statements

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Business and Organization

Outlook

The accompanying 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, for the three months ended March 31, 2017 we had a net loss of $2,060,076, and used $1,176,252 cash in operations, and at March 31, 2017, had working capital of $713,172, current assets of $1,409,971, and an accumulated stockholders' deficit of $93,912,246. 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 technologies. 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 balance was $1,175,525 at March 31, 2017. We had revenues of $46,017 in the three months ended March 31, 2017, which amount was not sufficient to fund our operations. At times in the past we have not had enough cash or sources of capital to pay our accounts payable and expenses as they arise, and have relied on the issuance of stock options and common stock, as well as extended payment terms with our vendors, to continue to operate. Although our cash position at the moment is stronger than in the past, our total cash decreased by over $700,000 from December 31, 2016 to March 31, 2017. We will be required to raise substantial additional capital to expand our operations, including without limitation, hiring additional personnel, additional scientific and third-party testing, costs associated with obtaining regulatory approvals and filing additional patent applications to protect our intellectual property, and possible strategic acquisitions or alliances, as well as to meet our liabilities as they become due for the next 12 months.

As of March 31, 2017, we had $5,760,668 in principal amounts due on various debt obligations (see Note 4). Of that amount, $5,430,668 are long-term liabilities and convertible at our option into common stock at maturity. Interest continues to accrue on each of these notes. Additionally, we had $236,699 of accounts payable and accrued expenses (see Note 7).

The unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to Rule 8-03 of Regulation S-X under the Securities Act of 1933, as amended. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. For some of our activities, we are still operating in the early stages of the sales and distribution process, and therefore our operating results for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017, or for any other period. These unaudited consolidated financial statements and notes should be read in conjunction with the Company's audited financial statements and accompanying notes included in the Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission (the "SEC") on March 30, 2017.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. All intercompany accounts and transactions have been eliminated.

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 compensation and financing transactions, uncollectible accounts receivable, asset impairment and amortization, and taxes, among others.

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.

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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 fully vested 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. The issuance of stock warrants or options to non-employees that vest over time are revalued each reporting period until vested to determine the amount to be recorded as an expense in the respective period. As the warrants or options vest, they are valued on each vesting date and an adjustment is recorded for the difference between the value already recorded and the then current value on the date of vesting.

Warrants

The Unit Offerings of our convertible promissory note and a Series A stock purchase warrant are accounted for under the fair value and relative fair value method.

The warrant is first analyzed per its terms as to whether it has derivative features or not. If the warrant is determined to be a derivative, then it is measured at fair value using the Black Scholes Option Model, and recorded as a liability on the balance sheet. The warrant is measured again at its then current fair value at each subsequent reporting date (it is “marked-to-market”).

If the warrant is determined to not have derivative features, it is recorded into equity at its fair value using the Black Scholes option model, however, limited to a relative fair value based upon the percentage of its fair value to the total fair value including the fair value of the convertible note.

The convertible note is recorded at its fair value, limited to a relative fair value based upon the percentage of its fair value to the total fair value including the fair value of the warrant. Further, the convertible promissory note is examined for any intrinsic beneficial conversion feature ("BCF") of which the convertible price of the note is less than the closing stock price on date of issuance. If the relative fair value method is used to value the convertible promissory note and there is an intrinsic BCF, a further analysis is undertaken of the BCF using an effective conversion price which assumes the conversion price is the relative fair value divided by the number of shares the convertible debt is converted into by its terms. The adjusted BCF value is accounted for as equity.

The warrant and BCF fair values are also recorded as a discount to the convertible promissory notes. As present, these equity features of the convertible promissory notes have recorded a discount to the convertible notes that is substantially equal to the proceeds received.

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.

Foreign Currency

The Company has designated the functional currency of Biolargo Water, Inc., our Canadian subsidiary, to be the Canadian dollar. Therefore, translation gains and losses resulting from differences in exchange rates are recorded in accumulated other comprehensive income.

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. In the event we do so, we anticipate a licensee would 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. We would recognize license fees over the estimated period of future benefit to the licensee.

Government Grants

We have been awarded grants from the Canadian National Research Institute – Industrial Research Assistance Program (NRC-IRAP) and the National Science and Engineering Research Council of Canada (NSERC). The government grants received are considered other income and are included in our consolidated statements of operations. Some of the funds from these grants are given directly to third parties (such as the University of Alberta) to support research on our technology. The grants have terms generally ranging between six and eighteen months and support a majority, but not all, of the related research budget costs.

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The grants typically provide for either (i) recurring monthly amounts, (ii) reimbursement of payroll costs for researchers for which we invoice to request payment, or (iii) ancillary cost reimbursement for research projects, including travel related costs. All awarded grants have specific requirements on how the money is spent, typically to employ researchers. None of the funds may be used for general administrative expenses or overhead in the United States.

Earnings (Loss) Per Share

We report basic and diluted earnings (loss) per share (“EPS”) for common and common share equivalents. Basic EPS is computed by dividing reported earnings by the weighted average shares outstanding. Diluted EPS is computed by adding to the weighted average shares the dilutive effect if stock options and warrants were exercised into common stock. For the three months ended March 31, 2016 and 2017, 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.

Concentrations of Credit Risk

All highly liquid investments with original maturities of three months or less or money market accounts held at financial institutions are considered to be cash. Substantially all of the cash is placed with one financial institution. From time to time during the year the cash accounts are exposed to credit loss for amounts in excess of insured limits of $250,000 in the event of non-performance by the institution, however, it is not anticipated that there will be non-performance. At March 31, 2017 and December 31, 2016, the Company had cash balances in excess of federally insured limits in the amount of approximately $925,525 and $1,660,153, respectively.

Allowance for Uncollectible Receivables

Management evaluates credit quality by evaluating the exposure to individual counterparties, and, where warranted, management also considers the credit rating or financial position, operating results and/or payment history of the counterparty. Management establishes an allowance for amounts for which collection is considered doubtful. Adjustments to previous assessments are recognized in income in the period in which they are determined. At March 31, 2017, the allowance for uncollected receivables was $15,000.

Recent Accounting Pronouncements

In April 2016, the FASB issued ASU 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing”. The amendments in this Update affect the guidance in Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606), which we are required to apply for annual periods beginning after December 15, 2017. Although management is still evaluating the potential impact of the adoption of this standard, its preliminary analysis is that the new guidelines currently will not substantially impact our revenue presentation.

In March 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-09, “Improvements to Employee Share-Based Payment Accounting,” which simplifies several aspects of the accounting for share-based award transactions and adds two practical expedients for nonpublic entities. The new standards are effective for annual periods beginning after December 15, 2017. An entity that elects early adoption must adopt all the amendments in the same period. The Company is currently evaluating the impact of the pending adoption of the ASU on our consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, “Leases”. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Although management is still evaluating the potential impact of the adoption of this standard, its preliminary analysis is that the new guidelines currently will not substantially impact our revenue presentation.

Note 3. Prepaid Expenses

Our payment system for vendors and employees requires we initiate payments a few business days prior to payment due dates. As such, we recorded $125,910 as prepaid expense to employees and vendors in advance for April 2017 services. The remaining $21,472 of prepaid expense as of March 31, 2017 relates to advertising services that will amortize monthly through September 30, 2017.

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 4. Convertible Notes Payable and Lines of Credit

	DECEMBER 31, 2016	**MARCH 31, 2017**
Current liabilities:		
Convertible notes, mature July 8, 2017	$ 280,000	$—
Line of credit, matures December 1, 2017	50,000	50,000
Convertible notes, mature December 30, 2017	280,000	280,000
Subtotal:	$ 610,000	$330,000
Long-term liabilities:		
Convertible notes, mature June 1, 2018	4,800,097	4,680,097
Line of credit, matures March 31, 2019	—	175,000
Convertible notes, mature September 17, 2019	283,571	283,571
Convertible notes, mature December 31, 2019	167,000	292,000
Subtotal:	$ 5,250,668	$5,430,668
Total:	$ 5,860,668	$5,760,668

For the three months ended March 31, 2016 and 2017, we recorded $406,325 and $953,636 of interest expense related to the amortization of our discount on our convertible notes payable and interest from our convertible notes, note payable and line of credit.

Convertible notes, mature July 8, 2017

On July 8, 2016, we received $250,000 and issued convertible promissory notes (convertible at $0.45 per share) with a maturity date of July 8, 2017 to two accredited investors' in the aggregate principal amount of $280,000. Interest is charged upon issuance at 3% per annum. We issued these investors stock purchase warrants to purchase an aggregate 400,000 shares of our common stock exercisable at $0.65 per share, which expire five years from the date of grant.

(See Note 6.)

On January 13, 2017, the holders of these notes exercised their right to convert their notes in aggregate principal amount of $280,000 into 640,889 shares of our common stock.

Line of Credit, matures December 1, 2017

On June 6, 2016, we received $300,000 pursuant to a line of credit, accruing interest at a rate of 18% per annum, for which we have pledged our inventory and accounts receivable as collateral. The line of credit may be repaid following nine-months from the date of issuance or at the maturity date December 1, 2017.

Each investor, for no additional consideration, received a warrant to purchase our common stock. (See Note 6). The warrant allows for the purchase of the number of common shares equal to the investment amount (e.g., one warrant share for each dollar invested).

On September 17, 2016, investors holding $250,000 of the line of credit converted their line of credit into convertible promissory notes and stock purchase warrants on the same terms and notes issued in the 2015 Unit Offering (see section immediately below).

As of December 31, 2016, and March 31, 2017, $50,000 remains outstanding on this line of credit.

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Convertible Notes, mature December 30, 2017

On December 30, 2016, we received $250,000 and issued convertible promissory notes (convertible at $0.57 per share) with a maturity date of December 30, 2017 to two accredited investors, in the aggregate principal amount of $280,000. Interest is charged upon issuance at 3% per annum. We issued these investors stock purchase warrants to purchase an aggregate 400,000 shares of our common stock exercisable at $0.75 per share, which expire five years from the date of grant. (See Note 6).

Convertible Notes, mature June 1, 2018

On January 15, 2015, we commenced a private securities offering of “units”, each Unit consisting of a convertible promissory note and Series A stock purchase warrant (“2015 Unit Offering”), which was closed on September 16, 2016. The price and availability of the Units were set forth in five “Pricing Supplements” issued from time-to-time. Each note issued is convertible into the Company’s common stock at the Unit price set forth in the particular pricing supplement, and matures June 1, 2018.

Interest due will be paid quarterly in arrears in cash or shares of common stock; all interest due thus far has been paid in shares of common stock. If paid by the issuance of common stock, interest is paid at a conversion price equal to the average closing price of the Company’s common stock over the 20 trading days prior to the interest payment due date. The principal amount of the note may be paid by the issuance of shares of common stock, or cash, upon maturity at the Company’s election. When paid in shares, the number of shares to be issued shall be calculated by dividing the principal amount invested by the Unit price, as it is established at the time of the original investment by the applicable Pricing Supplement. The notes may be converted at any time by the investor, at maturity by the Company, or by the Company prior to maturity, so long as all of the following conditions are met: (i) the Shares issued as payment are registered with the SEC, (ii) the Company’s common stock closes for ten consecutive trading days at or above three times the Unit price.

Each investor, for no additional consideration, received a Series A stock purchase warrant. (See Note 6).

As of March 31, 2017, the outstanding balance for notes issued in the 2015 Unit Offering, maturing June 1, 2018 is as follows:

Unit/Conversion Price	Warrant Exercise Price	Aggregate Outstanding
$ 0.25	$ 0.40	$ 1,652,384
$ 0.35	$ 0.45	1,881,046
$ 0.55	$ 0.70	1,146,667
		$ 4,680,097

During the three months ended March 31, 2017, investors elected to convert an aggregate $120,000 principal amount promissory notes issued in our 2015 Unit Offering and accrued interest into 406,789 shares of our common stock.

During the three months ended March 31, 2016, we received $255,000, and issued unsecured convertible promissory notes with maturity dates of June 1, 2018, which accrue interest at the rate of 12% per annum.

<u>Line of Credit, matures March 31, 2019</u>

On March 31, 2017, our subsidiary Clyra Medical Technologies, Inc., of which we hold 54% of the outstanding stock, obtained a $250,000 unsecured line of credit from Sanatio Capital LLC (see Note 8). On March 31, 2017, Clyra received $175,000 pursuant to this line of credit, accruing interest at a rate of 10% per annum and a 5% original issue discount. Sanatio may call the line of credit at any time on or after March 31, 2019, with 60 days' written notice, at which time all principal and unpaid interest shall become due and payable. Subsequent to March 31, 2017, Clyra received the remaining $75,000 pursuant to the line of credit.

<u>Convertible Notes, mature September 17, 2019</u>

On September 17, 2016, investors in the line of credit (see "Line of Credit, matures December 1, 2017," above), converted principal amount of $250,000 plus accrued interest of $33,571 into convertible promissory notes totaling $283,571 on the same terms and notes issued in the 2015 Unit Offering, convertible at $0.55 per share, with the exception that these notes mature September 17, 2019, rather than June 1, 2018. On the date of conversion, our common stock closed at $0.70. Additionally, the investors received a Series A stock purchase warrant to purchase 515,583 shares of our common stock at an exercise price of $0.70 per share. (See Note 6.)

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Convertible Notes, mature December 31, 2019

On December 27, 2016, we commenced a private securities offering (titled the "Winter 2016 Unit Offering") which offered the sale of $600,000 of "Units," each Unit consisting of a convertible promissory note and stock purchase warrant. The promissory notes issued to investors were convertible at $0.57 cents per share, a discount to the market price of our stock on that date of $0.86, mature December 31, 2019, and bear interest at the rate of 12% per annum on the amount invested. Any interest due will be paid quarterly in arrears in cash or shares of common stock. If paid by the issuance of common stock, interest is paid at a conversion price equal to the average closing price of the Company's common stock over the 20 trading days prior to the interest payment due date. The principal amount of the note may be paid by the issuance of shares of common stock, or cash, upon maturity at the Company's election.

When paid in shares, the number of shares to be issued shall be calculated by dividing the principal amount invested by the $0.57 conversion price. Promissory notes may be converted at any time by the investor, at maturity by the Company, or by the Company prior to maturity, so long as the following conditions are met: (i) the Shares issued as payment are registered with the SEC; and (ii) the Company's common stock closes for ten consecutive trading days at or above three times the Unit price. In addition to the convertible promissory note, each investor received a warrant allowing for the purchase of the number of shares of BioLargo common stock equal to the investment amount divided by $0.57 (e.g., one warrant share for each share of common stock which the investor is eligible to receive through conversion of his original convertible note). The exercise price of the warrant is $0.70 per share of common stock and expire on December 31, 2021 (see Note 6). The Company may "call" the warrants, requiring the investor to exercise their warrants within 30 days or forever lose the rights to do so, only if the following conditions have been met: (i) the underlying Shares are registered with the SEC and (ii) the Company's common stock closes for 10 consecutive trading days at or above two times the exercise price. The shares underlying the warrants contain "piggy back" registration rights for any registrations subsequent to the Form S-1 filed January 24, 2017.

The offering terminated on January 13, 2017. During the three months ended March 31, 2017, we received $125,000 in investments from three accredited investors, and issued warrants to purchase 219,298 shares of our common stock. From inception of the offering through its closing, we received $292,000 from six investors, issued convertible notes in the aggregate of $292,000, and issued warrants to purchase 512,281 shares of our common stock.

Note 5. Share-Based Compensation

During the three-month periods ended March 31, 2016 and 2017, we recorded an aggregate $301,839 and $280,288 in selling general and administrative expense related to the issuance of stock options. We issued options through our 2007 Equity Incentive Plan and outside of our 2007 Equity Incentive Plan.

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 Board's 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.

On February 10, 2017, we extended the engagement agreement with our Chief Financial Officer, retroactive to October 1, 2016. The sole consideration for the one-year extension was the issuance of an option to purchase 300,000 shares of our common stock, at an exercise price of $0.69 per share which was equal to the closing price of our common stock on the date of grant. The option expires February 10, 2027, and vests over the term of the engagement with 125,000 shares having vested as of February 10, 2017, and the remaining shares to vest 25,000 shares monthly beginning March 1, 2017, and each month thereafter, so long as his agreement is in full force and effect. The fair value of the option totaled $207,000, during the three months ended March 31, 2017, $103,500 is recorded as selling, general and administrative expense on our statement of operations. The balance will vest monthly through September 30, 2017.

On March 21, 2016, our Board of Directors extended by five years the expiration of options to purchase 307,777 shares of our common stock issued to our Board of Directors and vendors in March 2011. The options were originally issued in exchange for unpaid obligations and now expire on March 21, 2021. The weighted-average fair value of the options resulted in additional $119,971 of selling, general and administrative expenses.

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Activity for our stock options under the 2007 Plan for the three months ended March 31, 2016 and 2017 is as follows:

As of March 31, 2016:	**Options Outstanding**	**Options Available**	**Exercise Price per share**	**Weighted Average Price per share**
Balance, December 31, 2015	10,241,086	1,758,914	$0.23–1.89	$ 0.44
Granted	—	—	—	—
Expired	—	—	—	—
Balance, March 31, 2016	10,241,086	1,758,914	$0.23–1.89	$ 0.44

As of March 31, 2017:	**Options Outstanding**	**Options Available**	**Exercise Price per share**	**Weighted Average Price per share**
Balance, December 31, 2016	9,916,586	1,981,414	$0.23– 1.89	$ 0.44
Granted	300,000	(300,000)	0.69	0.69
Expired	—	—	—	—
Balance, March 31, 2017	10,216,586	1,681,414	$0.23– 1.89	$ 0.47

Options issued Outside of the 2007 Equity Incentive Plan

On February 1, 2017, as part of an agreement we executed with a strategic advisor, we issued an option to purchase 300,000 shares of our common stock with an exercise price of $0.67, the stock price on grant date. The option expires ten years from the date of issuance and the option vests in 12,500 equal amounts over 24 months. The agreement also calls for the strategic advisor to provide deliverables focused in the water industry such as business plans and strategic initiatives for the Company. During the three months ended March 31, 2017, 25,000 options vested resulting in a fair value of $15,000 recorded as selling, general and administrative expense on our statement of operations.

On March 31, 2017, we issued options to purchase 283,526 shares of our common stock at an exercise price of $0.50 per share to our board of directors, in lieu of $65,000 in fees and to vendors in lieu or accrued and unpaid fees $56,671. The weighted-average fair value of these options totaled $141,763 and an additional $20,092 was recorded as selling, general and administrative expenses.

On March 31, 2016, we issued options to purchase 263,523 shares of our common stock at an exercise price of $0.33 per share to our board of directors, in lieu of $67,500 in fees and to a vendor in lieu or accrued and unpaid fees $12,975. The weighted-average fair value of these options totaled $86,963 and is recorded as selling, general and administrative expenses.

The grant-date fair value of the previously issued options that vested during the three months ended March 31, 2016 and 2017 was $94,905 and $20,025, respectively.

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Activity of our stock options issued outside of the 2007 Plan for the three months ended March 31, 2016 and 2017 is as follows:

As of March 31, 2016:	**Options Outstanding**	**Exercise Price per share**	**Weighted Average Price per share**
Balance, December 31, 2015	19,394,975	$0.18– 1.00	$ 0.40
Granted	263,523	0.33	0.33
Expired	—	—	—
Balance, March 31, 2016	19,658,498	$0.18– 1.00	$ 0.40

As of March 31, 2017:	**Options Outstanding**	**Exercise Price per share**	**Weighted Average Price per share**
Balance, December 31, 2016	20,148,766	$0.18–1.00	$ 0.40
Granted	583,526	0.50 –0.67	0.59
Expired	—	—	—
Balance, March 31, 2017	20,732,292	$0.18–1.00	$ 0.41

For employees, we recognize compensation expense for stock option awards on a straight-line basis over the applicable service period of the award, which is the vesting period. Share-based compensation expense is based on the grant date fair value estimated using the Black-Scholes Option Pricing Model. The following methodology and assumptions were used to calculate share based compensation for the three months ended March 31:

	2016		**2017**	
	Non Plan	**2007 Plan**	**Non Plan**	**2007 Plan**
Risk free interest rate	1.91 %	1.36 %	2.40 %	2.40 %

Expected volatility	645 %	315 %	601 %	601 %
Expected dividend yield	—	—	—	—
Forfeiture rate	—	—	—	—
Expected life in years	7	5	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. 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 6. Warrants

Warrants Issued Concurrently with Winter 2016 Unit Offering

During the three months ended March 31, 2017, pursuant to the terms of our Winter 2016 Unit Offering (see Note 4), we issued warrants to purchase up to an aggregate 219,298 shares of our common stock at an exercise price of $0.70 per share. These warrants expire December 31, 2021. The relative fair value of these warrants and the intrinsic value of the beneficial conversion feature resulted in $125,000 recorded as a discount on our convertible notes on our consolidated balance sheet in the period issued.

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The Winter 2016 Unit Offering closed January 13, 2017, and in total we issued warrants to purchase up to an aggregate 512,281 shares of our common stock at an exercise price of $0.70 per share.

Warrants Issued Concurrently with One Year Convertible Notes

On July 8, 2016, we issued warrants to purchase an aggregate 400,000 shares of our common stock. These warrants are initially exercisable at $0.65 per share and expire July 8, 2021. The fair value of warrants issued resulted in $160,000 discount on the one year convertible note. Additionally, the exercise price of the stock purchase warrant may be adjusted downward in the event we sell our common stock or issue warrants at a lower price, other than through our 2015 Unit Offering (and, pursuant to a letter agreement dated December 30, 2016, through our Winter 2016 Unit Offering and the December 30, 2016 investment detailed in next paragraph). The warrant does not qualify for equity classification, therefore we have recognized the warrant as a derivative liability. As a result, we are required to calculate the fair value at each reporting period and record the change.

On December 30, 2016 we issued warrants to purchase an aggregate 400,000 shares of our common stock. These warrants are initially exercisable at $0.75 per share and expire December 30, 2021. The stock price on the date of grant was $0.83. The fair value of warrants issued resulted in $280,000 discount on the one year convertible note. Additionally, the exercise price of the stock purchase warrant may be adjusted downward in the event we sell our common stock or issue warrants at a lower price, other than through our Winter 2016 Unit Offering or to persons providing services to our company. The warrant does not qualify for equity classification, therefore we have recognized the warrant as a derivative liability. As a result, we are required to calculate the fair value at each reporting period and record the change.

The fair value of these warrants on March 31, 2017, totaled $397,960 and is recorded as a derivative liability on our balance sheet. The change in fair value for the three months ended March 31, 2017, resulted in other income of $265,600 recorded on our statement of operations.

Series A Warrants

During the three months ended March 31, 2016, pursuant to the terms of our 2015 Unit Offering (see Note 4), we issued warrants to purchase up to an aggregate 728,571 shares of our common stock at an exercise price of $0.45 per share. These warrants were issued to investors and as commissions, and are set to expire June 1, 2020. The intrinsic and relative fair value of these warrants resulted in $255,000 recorded as a discount on our convertible notes on our consolidated balance sheet in the period issued.

Each Series A warrant allows for the purchase of the number of common shares equal to the investment amount divided by the Unit price, (e.g., one warrant share for each share of common stock which the investor is eligible to receive through conversion of his original convertible note) and, the warrant will have an exercise price as set forth in the Pricing Supplement. Each Series A warrant expires June 1, 2020. The Company may "call" the Series A warrant, requiring the investor to exercise the warrant within 30 days or forever lose the rights to do so, only if the following conditions have been met: (i) the underlying Shares are registered with the SEC, and (ii) the Company's common stock closes for ten consecutive trading days at or above two times the exercise price.

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Exercise of Warrants

During the three months ended March 31, 2017, we issued 510,000 shares of our common stock and in exchange we received proceeds totaling $153,000 from the exercise of our outstanding stock purchase warrants. Of the warrants exercised, 370,000 shares were exercised at $0.30 per share and 140,000 shares were exercised at $0.25 per share. No warrants were exercised in the three months ended March 31, 2016.

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

As of March 31, 2016	**Number of Shares**	**Price Range**
Balance, December 31, 2015	13,779,438	$0.125 – 1.00
Issued	728,571	0.45
Expired	—	—
Balance, March 31, 2016	14,508,009	$0.125 – 1.00

As of March 31, 2017	**Number of Shares**	**Price Range**
Balance, December 31, 2016	20,035,114	$0.125 – 1.00
Issued	219,298	0.70
Exercised	(510,000)	0.25 – 0.30
Balance, March 31, 2017	19,744,412	$0.125 – 1.00

The fair value of each award grant is estimated on the date of grant using the Black-Scholes option-pricing model. The determination of expense of warrants issued for services or settlement also uses the option-pricing model. The principal assumptions we used in applying this model were as follows for the three months ended March 31:

	2016	2017
Risk free interest rate	1.36 %	1.93 %
Expected volatility	315 %	297 %
Expected dividend yield	—	—
Forfeiture rate	—	—
Expected life in years	5	5

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

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Note 7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included the following:

	December 31, 2016	**March 31, 2017**
Accounts payable and accrued expenses	$ 22,231	$ 57,363
Payroll tax liability	137,500	137,500
Officer bonus	80,000	—
Accrued interest	40,372	41,836
Total accounts payable and accrued expenses	$ 280,103	$ 236,699

The payroll tax liability is our estimate of payroll taxes due on the past services of independent contractors. We are currently attempting to reduce the liability to approximately $5,000 through the IRS Voluntary Classification Settlement Program.

On September 27, 2016, the board approved a $60,000 bonus for each of our Chief Executive and Chief Science Officers, $20,000 of which was paid to each immediately. In January 2017, the remaining $40,000 was paid to each.

During the three months ended March 31, 2016 and 2017, we issued 192,214 and 144,545 shares of common stock in lieu of fees for service provided by consultants, resulting in a grant date fair value of $73,658 and $82,480, respectively, and recorded in selling general and administrative expense.

During the three months ended March 31, 2016 and 2017 we issued 282,240 and 310,404 shares of common stock resulting in a grant date fair value of $99,492 and $178,929, respectively. The shares were issued to settle our accrued interest liability, which is recorded as interest expense in our consolidated statement of operations.

Note 8. Noncontrolling Interest

In May 2012, we formed a subsidiary for the purpose of marketing and selling medical products containing our technology, Clyra Medical Technology, Inc. (“Clyra”). Until December 17, 2012, this subsidiary was wholly-owned, with 7,500 shares issued to BioLargo, Inc. On December 17, 2012, Clyra issued 1,500 shares of Clyra common stock to a three-member management team, 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.

On December 30, 2015, Clyra sold 9,830 shares of its Series A Preferred Stock (“Preferred Shares”) to Sanatio Capital, LLC (“Sanatio”) for $750,000. This sale was made in reliance on the exemption from registration contained in Section 4(2) of the Securities Exchange Act and Regulation D promulgated thereunder as not involving a public offering of securities. As a result of the sale, Sanatio owns 40% of Clyra’s issued and outstanding shares, BioLargo owns 54%, and the remainder is owned by management.

As set forth in Clyra’s Amended and Restated Articles of Incorporation, Preferred Shares accrue an annual dividend of 8% for a period of five years. Although the dividends begin to accrue immediately, Clyra has no obligation to declare a dividend until a product of the company has received a premarket approval by the United States Federal Drug Administration (“FDA”), or for which a premarket notification pursuant to form 510(k) has been submitted and for which the FDA has given written clearance to market the product in the United States (either, “FDA Approval”). After FDA Approval, annually on December 20, and unless prohibited by California law governing distributions to shareholders, Clyra is required to declare and pay any accruing dividends to holders of Preferred Shares then accrued but unpaid. Management classifies the Preferred Shares dividend as a medium probability of occurring and as of March 31, 2017 the Preferred Shares dividend has an accrued and undeclared balance of $75,000.

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Holders of Preferred Shares are entitled to preferential payments in the event of a liquidation, dissolution or winding up of the company, in an amount equal to any accrued and unpaid dividends. After such preference, any remaining assets are distributed pro-rata between holders of Clyra common stock and Preferred Shares as if the Preferred Shares had converted to Clyra common stock. Holders of Preferred Shares may convert the shares to Clyra common stock initially on a one-to-one basis. The conversion formula is subject to change in the event Clyra sells stock at a lower price than the price paid by Sanatio.

In addition to the foregoing, Clyra entered into a consulting agreement with Beach House Consulting, LLC, through which Jack B. Strommen will be providing consulting services to the company. Mr. Strommen is the founder of Beach House Consulting, LLC. Mr. Strommen will be assisting the company in its sales and marketing activities once it has FDA Approval on a product, at which point the agreement provides that Mr. Strommen is to receive $23,438 per month for a period of four years. As of March 31, 2017, the Company has not presented any products to the FDA for FDA approval.

From inception, Clyra has generated no revenues and the financial impact of Clyra's operations for the three months ended March 31, 2017, resulted in a net loss of $137,082.

Note 9. Commitments and Contingencies.

The office lease for our corporate office in Westminster California has a four-year term that commenced September 1, 2016. As of May 15, 2017, there remains 39 months on the lease, and a total obligation over the remainder of $326,781.

The office lease for our research offices and laboratory at the University of Alberta Agri-Food Discovery Place commenced July 1, 2015. It currently expires June 30, 2018. As of May 15, 2017, there remains 13 months on the lease, and a total obligation over the remainder of $66,690 Canadian dollars (plus the Canadian "goods and services" tax).

Note 10. Subsequent Events.

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

Calvert Employment Agreement

On May 2, 2017, BioLargo, Inc. (the “Company”) and its President and Chief Executive Officer Dennis P. Calvert entered into an employment agreement (the “Calvert Employment Agreement”), replacing in its entirety the previous employment agreement with Mr. Calvert dated April 30, 2007.

The Calvert Employment Agreement provides that Mr. Calvert will continue to serve as the President and Chief Executive Officer of the Company and receive base compensation equal to his current rate of pay of $288,603 annually. In addition to this base compensation, the agreement provides that he is eligible to participate in incentive plans, stock option plans, and similar arrangements as determined by the Company’s Board of Directors, health insurance premium payments for himself and his immediate family, a car allowance of $800 per month, paid vacation of four weeks per year, and bonuses in such amount as the Compensation Committee may determine from time to time.

The Calvert Employment Agreement provides that Mr. Calvert will be granted an option (the “Option”) to purchase 3,731,322 shares of the Company’s common stock. The Option shall be a non-qualified stock option, exercisable at $0.45 per share, which represents the market price of the Company’s common stock as of the date of the agreement, exercisable for ten years from the date of grant and vesting in equal increments over five years. Notwithstanding the foregoing, any portion of the Option which has not yet vested shall be immediately vested in the event of, and prior to, a change of control, as defined in the Calvert Employment Agreement. The agreement also provides for a grant of 1,500,000 shares of common stock, subject to the execution of a “lock-up agreement” whereby the shares remain unvested unless and until the earlier of (i) a sale of the Company, (ii) the successful commercialization of the Company’s products or technologies as demonstrated by its receipt of at least $3,000,000 in cash, or the recognition of $3,000,000 in revenue, over a 12-month period from the sale of products and/or the license of technology, and (iii) the Company’s breach of the employment agreement resulting in his termination. The Option contains the other terms standard in option agreements issued by the Company, including provisions for a cashless exercise.

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The Calvert Employment Agreement has a term of five years, unless earlier terminated in accordance with its terms. The Calvert Employment Agreement provides that Mr. Calvert's employment may be terminated by the Company due to his death or disability, for cause, or upon a merger, acquisition, bankruptcy or dissolution of the Company. "Disability" as used in the Calvert Employment Agreement means physical or mental incapacity or illness rendering Mr. Calvert unable to perform his duties on a long-term basis (i) as evidenced by his failure or inability to perform his duties for a total of 120 days in any 360-day period, or (ii) as determined by an independent and licensed physician whom Company selects, or (iii) as determined without recourse by the Company's disability insurance carrier. "Cause" means that Mr. Calvert has (i) engaged in willful misconduct in connection with the Company's business; or (ii) been convicted of, or plead guilty or *nolo contendre* in connection with, fraud or any crime that constitutes a felony or that involves moral turpitude or theft. If Mr. Calvert's employment is terminated due to merger or acquisition, then he will be eligible to receive the greater of (i) one year's compensation plus an additional one half year for each year of service since the effective date of the employment agreement or (ii) one year's compensation plus an additional one half year for each year remaining in the term of the agreement. Otherwise, he is only entitled to receive compensation due through the date of termination.

The Calvert Employment Agreement requires Mr. Calvert to keep certain information confidential, not to solicit customers or employees of the Company or interfere with any business relationship of the Company, and to assign all inventions made or created during the term of the Calvert Employment Agreement as "work made for hire".

Exercise of 2007 Stock Option

On April 30, 2017, Mr. Calvert delivered a notice of exercise of 3,866,630 shares pursuant to his stock option agreement dated April 30, 2007. The exercise price was $0.18 per share, and the Company issued 2,501,937 shares, calculated by multiplying the difference between the market price of $0.51 and the exercise price of $0.18 with the number of shares exercised, and dividing that amount by the market price. No cash consideration was tendered with respect to the exercise. The remaining 3,866,629 shares available for purchase under the option agreement expired unexercised.

Pursuant to a "lock-up agreement" dated April 30, 2017, Mr. Calvert agreed to restrict the sales of the shares received until the earlier of (i) the consummation of a sale (in a single transaction or in a series of related transactions) of the Company by means of a sale of (a) a majority of the then outstanding common stock (whether by merger,

consolidation, sale or transfer of common stock, reorganization, recapitalization or otherwise) or (b) all or substantially all of its assets; and (ii) the successful commercialization of the Company's products or technologies as demonstrated by its receipt of at least $3,000,000 in cash, or the recognition of $3,000,000 in revenue, over a 12-month period from the sale of products and/or the license of technology; and (iii) the Company's breach of the employment agreement between the Company and Calvert dated May 2, 2017 and resulting in Calvert's termination.

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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 technologies and products incorporating our technologies;
- the effects of competitive factors on our technologies and products incorporating our technologies;
- 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 technologies in industries other than the animal health industry and to bring viable products to market in such industries;
- the application of our technologies in the food and beverage industry;
- the willingness of other companies to incorporate our technologies 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 technologies;
- the continued success and viability of our licensees holding the exclusive right to exploit our technologies 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 technologies 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, 2016. Unless otherwise expressly stated herein, all statements, including forward-looking

statements, set forth in this Form 10-Q are as of March 31, 2017, 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, Odor-No-More, Inc., a California corporation, BioLargo Water USA, Inc., a California corporation, BioLargo Development Corp., a California corporation, BioLargo Maritime Solutions, Inc., a California corporation, a Canadian subsidiary BioLargo Water, Inc., and its majority owned subsidiary Clyra Medical Technologies, Inc. (“Clyra”).

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

Our Business

Our goal is to make life better by delivering sustainable technology-based products that help solve some of the most widespread problems threatening the world's supply of water, food, agriculture, healthcare and energy. We create and refine intellectual property that forms a foundation from which to build and create break-through products and technology for licensure to commercial partners. Our products harness the power of iodine – “Nature’s Best Solution” – to eliminate contaminants that threaten our water, our health and our quality of life.

We invent, patent, prove and partner – to create best-of-class products and technology for commercialization as we build value for our stockholders and deliver benefits to our world.

Invent – Three Platform Technologies

We feature three patent protected platform technologies wi