BIOLARGO, INC.
Form 10-K
April 15, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year ended December 31, 2010

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 incorporation or organization)	(IRS Employer Identification No.)
16333 Phoebe Ave., La Mirada CA	90638
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number, including area code: (949) 643-9540

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

Securities registered under Section 12(g) of the Exchange Act:
Common Stock, $0.00067 par value

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the

Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company x

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

The registrant's revenues for the year ended December 31, 2010 were $156,761.

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2010 was approximately $4,503,178 which is based on 18,012,711 shares of common stock held by non-affiliates. (Based upon the price at which the common equity was sold, or the average bid and asked price of such common equity for the last trading date prior to that date).

The number of shares outstanding of the issuer's class of common equity as of April 14, 2011 was 54,099,874.

Portions of the registrant's Information Statement in connection with actions to be taken by its majority stockholders in lieu of a 2011 Annual Meeting of Stockholders are incorporated by a reference in Part III hereof.

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PART I

ITEM 1. BUSINESS

USE OF FORWARD LOOKING STATEMENTS IN THIS REPORT

This Annual Report contains forward-looking statements. These forward-looking statements include, but are not limited to, predictions regarding:

- our business plan;
- the commercial viability of our technology and products incorporating our technology;
- the effects of competitive factors on our technology and products incorporating our technology;
- expenses we will incur in operating our business;
- our liquidity and sufficiency of existing cash;
- the success of our financing plans; and
- the outcome of pending or threatened litigation.

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.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth below under the heading “Risk Factors”. All forward-looking statements included in this document are based on information available to us on the date hereof. We assume no obligation to update any forward-looking statements.

The information contained in this Annual Report is as of December 31, 2010, unless expressly stated otherwise.

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 (which may be referred to separately as “BLTI”), and Odor-No-More, Inc. (which may be referred to separately as “ONM”).

Our Business

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

Our BioLargo technology delivers “nature’s best solution” – iodine – to an array of problems, including odor and moisture control, disinfection, and contaminated water. Our technology enables us to deliver precise dosing of iodine in a variety of physical forms and delivery systems, which often include the combination of chemical reagents with other materials. We primarily focus on developing uses and/or applications for our technology for its use in products, in

order for us to secure a licensing and/or supplier agreement with other companies, that will in turn, sell services or products to their customers within a specific industry segment.

Armed with a solution to these problems, our BioLargo technology has potential commercial applications within global industries, including animal health, oil and gas extraction, agriculture and livestock, beach and soil environmental remediation, consumer products, food processing, medical, and water industries. While we believe the potential applications are many, we have developed and commercially launched products in one area -- the animal health industry, under the brand name “Odor-No-More”, and recently entered into an exclusive license and supply agreement with Central Garden & Pet Company (“Central Garden & Pet”, or “Central”), the industry leading producer of premium pet products in the United States. While we continue to advance our efforts to market and sell our Odor-No-More products, with the addition of two key industry experts to our team, we are also actively seeking opportunities for product sales or licensing in the oil and gas industry, and the food processing industry. These four areas – Odor-No-More, Central Garden & Pet, oil and gas, and food processing, are discussed below.

Benefits of Our “Free-Iodine” Technologies

We believe that our BioLargo technology and the Isan system, which is also a “free-iodine” technology, generally offer the following beneficial features, among others:

- Environmentally Friendly—Our BioLargo technology and the Isan system feature a scientifically proven effective disinfectant – free-iodine (also an essential nutrient) – which is recognized as part of nature’s natural cycle of sanitization. The Isan system also recaptures disinfection by-products in many of its applications. Both are “green” technologies.

- Inorganic Solution—The use of iodine in our BioLargo technology and the Isan system is strategically important because free-iodine is generally considered to be the most effective and potent disinfecting solution, covering a broad range of materials upon which it is effective. It is also an inorganic solution, so that organic microbes are not known to be able to develop an acquired resistance to its killing power.

- Disinfection-Deodorization—The chemical composition of our BioLargo technology and free iodine delivered by the Isan system when incorporated into products or used in a treatment system, deploys an additive germ killing strategy that includes a flashing of iodine (as with our CupriDyneTM technology), or a controlled dose in either the CupriDyneTM technology of Isan system and when used in absorbent products, the CupriDyneTM technology also lowers PH levels, which creates an acidic environment, oxidation, and flocculation (or a binding reaction to lock in the microbes), as well as effective odor control features.

- Increased Holding Power—Our BioLargo technology can increase significantly the holding power of absorbent material, depending on product configuration.

- Disposal—In certain applications, our BioLargo technology renders contaminated or infectious material safe to handle.

- Generally Recognized as Safe (GRAS) and Generally Recognized as Safe and Effective (GRASE))—The actual chemicals used, in both CupriDyne and the Isan system, as well as the byproduct of the chemical reaction, in our CupriDyne technology, are understood by the U.S. Food and Drug Administration (“FDA”) and the scientific community generally as non-toxic and safe, when delivered within a range of dosages prescribed by the FDA. Iodine is also considered GRASE for its antimicrobial, sanitizing, disinfecting or sterilizing capabilities in appropriate product applications.

- Lower Corrosion- Free Iodine as featured in CupriDyne and the Isan system is less corrosive than chlorine which may help extend the useful life of capital equipment as compared to chlorine systems.

- Less pH Sensitivity- The Isan system operates effectively within a broad range of pH, as compared to chlorine, which can help reduce labor costs and can help improve quality assurance and traceability when used in a food sanitization system, as compared to chlorine systems.

Oil and Gas Industry

In 2010, we added to our team the former chief technology officer of oil industry giant Halliburton, Dr. Vikram Rao. Having spent more than 30 years at Halliburton, Dr. Rao is the author of more than 40 publications, has been awarded 24 patents, serves as the Executive Director of the Research Triangle Energy Consortium, and brings his experience and industry connections to BioLargo.

The environmental problems caused by oil and gas exploration are well documented. We believe we can play an important role in any of the areas within this industry that must contend with managing contaminated water, bacteria, volatile organic compounds, or other pollutants. For example, “fracturing,” the process of injecting liquids into geologic formations to release natural gas and oil, creates contaminated water that must be treated before release into the environment. We believe our BioLargo technology offers an important improvement to this industry as it copes with increasing regulatory and political pressures to maintain safety and environmentally sound operating procedures.

Food Processing Industry

In February 2011, we added to our team former Pepsi-Cola International VP of Technical Services, Harry DeLonge. Having spent more than 40 years at Pepsi-Cola International, Mr. DeLonge will assist us in our efforts to commercialize our BioLargo technology in the food and beverage industry. Within the food and beverage industry, we believe the BioLargo technologies are useful in a number of applications, including “clean-in-place” related uses, treating processed and wastewater, and for enhancing performance of certain filter and water treatment technologies. In addition, we believe that we have a cost effective solution for managing dangerous and/or odorless compounds common with this industry. With Mr. DeLonge’s assistance, we are advancing proof of claim, and seeking customers and licensing partners.

Odor-No-More Branded Products

In May 2009 we officially launched our first products incorporating our BioLargo technology, targeted to the animal health marketplace under the “Odor-No-More” brand name, which help customers save time and money while controlling odor and moisture:

1. Animal Bedding Additive

2. Cat Litter Additive

3. Facilities and Equipment Wash

In the latter half of 2009, we introduced three additional animal bedding products directed at the small animal, birds and reptiles markets. These products are featured in a smaller size package (one pound) than the larger 10 pound package of animal bedding additive initially released. We have also modified the product formula to suit the new intended uses.

As discussed below, we have recently entered into an exclusive supply and license agreement with Central Garden & Pet Company. (See "Agreement with Central Garden & Pet", below.) Although we have granted Central exclusive rights in the pet supplies industry, we are allowed under the agreement to continue to market our Odor-No-More branded products outside of the pet supplies industry, including the equine and livestock markets. As a result, we will not continue to market our cat litter additive, or small animal bedding products, to the pet industry.

In January 2010, we formed a wholly owned subsidiary, Odor-No-More, Inc., and named as its president Joseph L. Provenzano, a member of our board of directors, our corporate secretary, and our Vice President of Operations.

Marketing – Equine Industry

We have focused our initial marketing efforts of our Odor-No-More products on our animal bedding additive for use in the equine industry. In 2010, our Animal Bedding Additive was awarded Horse Journal "product of the year." We chose this market for two primary reasons. First, the size of the market is significant. With over nine million horses in the United States, horse owners spend an aggregate 4.6 billion dollars annually on "feed, bedding, and grooming supplies," according to a 2005 study sponsored by the American Horse Council. Second, our selling proposition is compelling to the industry because we believe our animal bedding product can provide up to a 75% savings on horse bedding costs, while eliminating odor and moisture and helping create a safer and healthier environment for animals.

Since our product launch in May 2009, we have secured product distribution through multiple national and regional distributors in the animal care market, two of the largest catalog and eCommerce animal health supply retailers, a distributor in the exotic animal care market, and are currently in discussions with other industry leaders. We received our first large commercial order for Odor-No-More products, from national distributor E.T. Horn Company, in the summer of 2009. Despite our success in establishing distribution for our products, our sales will be limited until we can properly promote our products and brand.

For the years ended December 31, 2009 and 2010, we incurred $16,574 and $34,493 of advertising expense, including costs associated with print advertising, trade shows, equestrian events, local fairs, horse and livestock shows, and a horse rescue organization. We have not yet had the working capital necessary to fully execute a national advertising campaign to establish Odor-No-More as a recognizable brand throughout the equine industry. Without a comprehensive marketing and advertising campaign, we can make no assurance of the success of the sales of our Odor-No-More products. In addition to lacking the financial resources for a comprehensive advertising and marketing campaign, we lack the financial resources to hire a sales staff sufficient to generate significant sales. As such, we must rely on our wholesale distributor to sell through our products to their customers.

We also were honored to receive a Best New Product award at the SuperZoo 2009 convention for the pet industry, as well a featured product spotlight on a internationally known horse enthusiast television show named "Best of America by Horseback", which was broadcast on over 600 stations in 14 nations in the month of January 2010. Our products have also been written about in a number of articles, which have been published in trade related publications. As part of our promotional and advertising campaign we are sponsoring and participating in equestrian events, local fairs, trade shows, horse and livestock shows, and a horse rescue organization.

In addition to sales of Odor-No-More products to distributors and retailers, we offer a “free commercial trial” program as a way to prove the usefulness and cost savings of the Odor-No-More products to commercial scale accounts, such as horse stables or horse boarding facilities. Although we believe we can demonstrate to these customers a net cost savings on bedding using our animal bedding additive, we believe success in this area will require additional capital resources which we do not have available at this time.

There are many competitive products that claim to reduce odors in barns and horse stalls. Some of these products are offered at prices below our suggested retail price of our animal bedding additive. Although we believe that our animal bedding products outperform competing products, there can be no assurance that we can successfully differentiate our product and its performance with the competing products. We believe that the success of our selling efforts is highly reliant upon word-of-mouth marketing, testimonials and advertising. While we have benefited from a level of word-of-mouth and strong product performance related testimonials, our advertising has been limited due to our limited financial resources. While we are optimistic about the future success of our sales efforts for these products, we can make no prediction about our future financial resources, which we believe are a critical part of creating strong brand and product awareness, and, ultimately, product sales.

Livestock

We believe our Odor-No-More products have application to the livestock industry, including dairy and beef cattle, swine, and poultry. The potential markets in those industries are large – there are an estimated 97 million cattle at any one time in the United States, and up to 10 times that figure world wide, and swine populations exceed 175 million in the United States. We intend to focus our efforts in areas in which the technology helps provide increased health benefits for the animals and cost savings for the producer. We have begun work with a number of customer and companies that sell into these commercial markets to test application methods and results to optimize the performance for these markets. We have not sold product to customers in these industries, and can make no assurance about whether our products will be commercially feasible or accepted.

Small Pets

In May 2009, we launched a cat litter additive product featuring our BioLargo technology. Later that year, we launched animal bedding additive in small packaging for small animals, birds, and reptiles. We believe the market for our products in these segments is large. According to the American Pet Products Manufacturers Association 2009-10 National Pet Owners survey, Americans own approximately 93.6 million cats, 15 million birds, 15.9 million small animals and 13.6 million reptiles. We believe that our products out perform competing products making similar claims of odor reduction or elimination. We have recently entered into a license and distribution agreement with Central Garden & Pet Company to distribute these, and other products based on our technology, into the pet industry. (See Agreement with Central Garden & Pet, below.) As such, Central, through one or more of its subsidiary companies, may choose to market these products under their own brands, and at the present time, we do not plan to continue to market these products under the Odor-No-More brand.

Strategic Alliance with E.T. Horn

We have entered into a non-exclusive master distributor agreement with the E.T. Horn Company, which is headquartered in La Mirada, California. From time to time, E.T. Horn purchases inventory from us, and then makes the purchased inventory available to us for re-sale to other distributors or customers of either E.T. Horn and/or distributors or customers of Odor-No-More. Our relationship with E.T Horn has expanded to include marketing, tradeshow support, product development, contract manufacturing as well as warehousing at multiple ship points throughout the nation to provide timely and low cost shipping capabilities to customers. We have also sub-leased office space on the E.T. Horn campus in La Mirada. We believe that this relationship is well suited to enable us to more readily finance the inventory and order flow if our sales volumes grow. Although we are confident that the

relationship with E.T. Horn should continue to be mutually beneficial for both parties, nothing inherent in the contractual obligations of one to the other provides any assurances that it will continue as it is presently operating now.

We are actively recruiting wholesale distributors and retailers to carry our Odor-No-More products. Typically, when a new distributor agrees to purchase, inventory, and sell Odor-No-More products, the process of developing the account into a commercially meaningful relationship is a lengthy and time-consuming process. We can make no assurance that our existing distributors will continue to order product, or will be successful in selling to their customers.

Manufacturing

We do not presently intend to manufacture our Odor-No-More products. Rather, we have established local third party manufacturing and packaging, including our "master distributor," the E.T. Horn Company, as well as alternative manufacturing facilities in other parts of the United States. Through E.T. Horn, we warehouse product in locations across the United States to better serve our customers, and primarily utilize the E.T. Horn Company for distribution of our products to our customers.

"Regulated" Product Claims

Our Odor-No-More products may be eligible for certain regulated marketing claims. While we believe we are not required to obtain regulatory approval for our current marketing and product claims, it may, at some point in the future, be in our best interests to work towards and pursue additional regulated marketing claims to further differentiate our products in the marketplace, as financial resources are more readily available.

Agreement with Central Garden & Pet

On March 24, 2011, we entered into an agreement granting Central Garden & Pet the exclusive worldwide right and license to sell, market, offer for sale, distribute import, export, and otherwise exploit products that contain the BioLargo technologies in the "pet supplies industry" (which is defined in the agreement, and does not include products for equine or livestock). The agreement provides that we are to be the exclusive provider of the product containing the BioLargo technologies, other than in certain limited conditions. The rights granted to Central are exclusive so long as Central meets "minimum purchase requirements" of product from us, as set forth in the agreement. The agreement terminates only upon uncured breach of material warranty or obligation.

We believe that the supplier and licensing relationship with Central will likely expand to include multiple products that feature our BioLargo technology, although the agreement does not require Central to launch multiple products, and no assurance can be made that they will do so.Many of Central's product brands are the industry leader and household names with more than 20 years of history, including Kaytee, Nylabone, Four Paws, and others. With sales in the pet industry of more than $840 million annually, Central is the leading seller and distributor of pet products and supplies in the United States of America.

On March 24, 2011, Central paid us $100,000, which will be credited against future orders. We have agreed to sell product to Central at a price equal to the manufacturing cost plus a "manufacturer's margin", in an amount to be agreed upon by the parties for each particular product. Central agreed to include a BioLargo trademark on the packaging of any products containing the BioLargo technologies.

Central shall have a right of first refusal to purchase Odor-No-More, Inc., or the Odor-No-More brand and/or intellectual property. We are required to give notice of receipt of any offer to purchase, and Central may elect to match the terms of the offer. Central also has the right of first offer to acquire the right to commercialize new products based on BioLargo technologies in the "pet supplies industry", following notice from us and a 90 day due diligence period. If Central declines to commercialize any such new product, we are free to commercialize such products under its own brand, but not under a third party's brand.

The agreement also contains standard provisions typical of a license and supply agreement.

Strategic Alliance with Ioteq – The Isan System

In 2008, we acquired the rights to market an iodine based water disinfection system (the "Isan system") from Ioteq IP Pty. Ltd., an Australian company, and its U.S. affiliate Ioteq Inc, pursuant to a marketing and representation agreement. The Isan system is an automated water disinfection system that substantially reduces the incidence of fungal growth, spoilage, organisms and pathogens in water and on food. Capable of treating high volumes of water flow, the Isan system is a combination of electrodes for measuring iodine levels in the target water stream, a control unit which automatically controls the running of the system, iodine canisters to deliver the iodine, and resin canisters to collect by-products after disinfection has been completed. The Isan system is registered with the APVMA (Australian Pesticides and Veterinary Medicines Authority) and FSANZ (Food Standards Australia and New Zealand) in Australia and New Zealand, where it has approximately 150 customer installations currently operating.

Pursuant to the marketing and representation agreement, we were obligated to make monthly payments to Ioteq of $20,000 per month commencing September 1, 2008. For our efforts in seeking, identifying, introducing and negotiating business opportunities, Ioteq agreed to reimburse us our actual out-of-pocket costs incurred and pay us a royalty as follows:

(i) 40% of net revenue (as defined in the Marketing Agreement) received or earned by, or paid to, Ioteq, whether in cash or other property, derived directly or indirectly from each business opportunity where Ioteq incurs actual expenses in connection with the manufacture of products for such business opportunity; or

(ii) 40% of all gross amounts received or earned by, or paid to, Ioteq, whether in cash or other property, derived directly or indirectly from each other business opportunity, including without limitation licensing and distribution agreements and arrangements.

On March 26, 2010, the marketing and representation agreement was terminated and the parties entered into a sublicense agreement (the "Ioteq Sublicense Agreement"), which grants BioLargo the exclusive rights to use, exploit, develop and commercialize certain technology, including patented and proprietary technologies (referred to in this report as the "Isan System Technology") in the United States, Canada and Mexico, in any field of use. The agreement includes rights allowing BioLargo to sublicense the technology (see discussion regarding the Isan USA, Inc. sublicense below). Pursuant to the Ioteq Sublicense Agreement, BioLargo agreed to pay a royalty of 5% to Ioteq-US, as well as 60% of revenues generated from sublicense agreements, up to AUD$800,000 (Australian dollars; unless otherwise noted, all figures in U.S. dollars). Once Ioteq-US has received AUD$800,000 from BioLargo, the royalty rate is automatically reduced from 5% to 2.5%, and sublicensing fees are reduced from 60% to 30%. BioLargo is required to pay a minimum annual license fee to Ioteq Inc. of $150,000, which will be divided into twelve equal payments of $12,500 per month. The Ioteq Sublicense Agreement also contains customary provisions relating to indemnity, insurance, governing law, assignment of rights and obligations, attorneys' fees, force majeure and other matters standard for license transactions.

Simultaneously with the execution of the Ioteq Sublicense Agreement, BioLargo and Ioteq amended the terms of the Marketing Agreement. As amended, BioLargo will no longer be required to pay to Ioteq a monthly payment of $20,000. A final payment obligation accrued April 1, 2010, and BioLargo agreed to pay Ioteq $50,000, which amount represents accrued and unpaid monthly payment amounts, including the final April 2010 accrual. (See "Status of Isan USA and Ioteq", below.)

Sublicense to Isan USA

On March 29, 2010, BioLargo and Isan USA, Inc. (“Isan USA”) entered into a sublicense agreement (the “Isan USA Sublicense”) which grants Isan USA the exclusive rights to use, exploit, develop and commercialize the Isan System Technology in the United States, in particular fields of use (set forth below). Isan USA is a California corporation founded and organized by Bert Fenenga. Mr. Fenenga, headquartered in Oceanside, California, is a certified public accountant and senior executive with 25 years of corporate experience serving as Managing Director, COO, CFO or Senior VP with such noteworthy firms as Eagle Creek, Inc., and Quicksilver, Inc. Mr. Fenenga also invested in our private securities offering which commenced June 1, 2009.

The Isan USA Sublicense grants Isan USA exclusive rights to commercialize the Isan System Technology in the United States, in the following fields of use (as further defined in the agreement): (i) horticulture, (ii) post-harvest sanitation of fruits and vegetables, (iii) dairy use, and (iv) poultry drinking water. Additional fields of use may be added by Isan USA upon the satisfaction of certain conditions, including the submission of the proposed field of use, and a plan and budget for development and commercialization of product(s) in the proposed field of use. BioLargo would have 30 days after any such submission to review and respond to the proposal. If the parties agree, the sublicense agreement would be amended to include the proposed field of use.

In addition to the exclusive rights granted in the United States, the Isan USA Sublicense grants Isan USA rights to export licensed products to Canada and Mexico. Furthermore, should BioLargo enter into a sublicense agreement with a third party to commercialize the Isan System technology in the United States in a field of use not licensed to Isan USA, BioLargo is required to pay to Isan USA 15% of any revenue generated from that sublicense agreement. If BioLargo desires to commercialize the Isan System Technology in the United States in a field of use not subject to the Isan USA Sublicense, it must provide Isan USA the option to purchase the United States rights to the proposed field of use for an amount equal to one-third of the proposed commercialization budget, such payment to be made as expenses are accrued, and subject to increase or decrease based on actual expenditures.

Pursuant to the Isan USA Sublicense, Isan USA paid to BioLargo a $100,000 initial license fee, fully earned upon payment, and has agreed to pay a 6% royalty on sales of licensed products, and 30% of revenues generated from sublicense agreements. The royalty on sales of licensed products decreases to 5% if annual net sales revenues exceed $10,000,000, and decrease to 4% if annual net sales revenues exceed $15,000,000. Isan USA has agreed to pay a minimum annual license fee to BioLargo of $20,000 per month for the first 24 months of the agreement, and $33,333 per month thereafter, paid quarterly, in arrears, commencing June 30, 2010. Each of Ioteq-Australia and Ioteq-US executed a written consent to the Isan USA Sublicense. Isan USA has not yet secured permanent financing, has not yet sold product, and is in default of the license agreement. There can be no assurance that Isan USA will make further license payments to us, or that it will generate sales or royalties to us in the future.

As partial consideration for the Isan USA Sublicense, BioLargo was granted an option to purchase a 20% non-dilutive common stock interest in Isan USA, for a purchase price equal to the basis upon which the founders of Isan USA purchased their shares, not to exceed an aggregate of $200,000. These essential terms, and other standard terms and conditions, will be set forth in a written agreement, to be mutually prepared by the parties.

The Isan USA Sublicense grants Isan USA the right to conduct research and development activities, and pursue regulatory approval, field trials, and all other work necessary to develop, improve, enhance and commercialize the Isan System Technology within the defined fields of use in the United States. Any improvements to the Isan System Technology remain the property of BioLargo.

If Isan USA determines that the continuation of the Isan USA Sublicense will not be, or is no longer, economically viable, Isan USA may terminate the Isan USA Sublicense upon not less than 90 days written notice to BioLargo. Otherwise, the Isan USA Sublicense will expire on the earlier of (i) the expiration of the patent rights licensed, or (ii) on the 10th anniversary of the agreement. Isan USA may extend the agreement for six additional periods of five years, provided that the licensed patent rights remain valid. The Isan USA Sublicense also contains customary provisions relating to indemnity, insurance, governing law, assignment of rights and obligations, attorneys' fees, force majeure and other matters standard for license transactions.

Agency Agreement

In addition to the Isan USA Sublicense, on March 29, 2010, BioLargo and Isan USA entered into an agency agreement ("Agency Agreement") whereby BioLargo was designated a non-exclusive representative of Isan USA in the United States, with respect to seeking, identifying, introducing and negotiating –"business opportunities" to commercialize the Isan System Technology. As consideration for the designation, Isan USA agreed to pay to BioLargo 7% of any net royalty or payment received by Isan USA derived directly or indirectly from such business opportunities. The parties may agree on a different percentage. If BioLargo proposes to Isan USA a sublicense in a field of use sublicensed to Isan USA pursuant to the Isan USA Sublicense, with a party with whom BioLargo has entered into a product evaluation agreement, and within one year of the March 29, 2010 effective date of the Isan USA Sublicense, Isan USA has agreed to pay to BioLargo a sublicensing fee of 75% of any revenue received from such sublicense agreement. If the sublicense is commenced subsequent to one year from the March 29, 2010 effective date of the Isan USA Sublicense, Isan USA has agreed to pay to BioLargo a sublicensing fee of 50% of any revenue received from such sublicense agreement.

Status of Isan USA and Ioteq

Because it was unable to secure financing, Isan USA has ceased making the monthly payments required by the Isan USA Sublicense agreement. While we have not terminated the Isan USA Sublicense agreement, we have not waived our rights to do so, and continue to work with Ioteq to market the technology to potential industry partners,

Research and Development

Through IOWC, Mr. Code has been involved in the research and development of the BioLargo technology since 1997. He has participated in the Canadian Federal Scientific Research and Experimental Development program and he was instrumental in the discovery, preparation and filing of the first BioLargo technology patents. He has worked with manufacturers, distributors and suppliers in a wide variety of industries to gain a full appreciation of the potential applications and the methodologies applicable to our BioLargo technology for their manufacture and performance. He continues to research methods and applications to continue to expand the potential uses of our BioLargo technology as well as work to uncover new discoveries that may provide addition commercial applications to help solve real world problems in the field of disinfection.

During 2009, we engaged in a number of pivotal research studies that we hope will help advance our BioLargo technology. First, we engaged the University of Hawaii to study the uses of CupriDyne for environmental applications for contaminated sands.. The research confirmed that sewage contaminated sand samples treated with an 80 mg/L of CupriDyne solution achieved very effective (95-99%) to optimum effective (>99%) level of disinfection for enterococci bacteria. The study also concluded that the CupriDyne is less reactive with components in an

environmental sample than chlorine, and therefore may be a more effective disinfectant than chlorine under some environmental conditions.

Second, we co-sponsored, along with the Idaho Potato Commission and other industry members, a research program on the "Effect of Fungicide Programs on Foliar Disease Control." The study evaluated our BioLargo technology as compared with other available pesticide products. More work is being planned for 2010.

Third, we engaged the University of Alberta in Edmonton, Canada to conduct a study related to the treatment of liquid swine manure using our BioLargo technology. The results obtained from the study suggest that our BioLargo technology is a very effective alternative to existing liquid manure handling methods in terms of nutrient, total suspended solids, and coliform reductions. The results were published in the Journal of Hazardous Materials in December 2010. We intend to continue research in this area, and believe that applications for this research include also waste water treatment, industrial water, the oil and gas industries, including the treatment of bitumen deposits (also known as oil or tar sands), and food and beverage related applications.

In 2010, we continued research project begun in 2009, and in addition, were active in product development, testing, and validation work for various pet products in anticipation of our agreement with Central Garden & Pet.

Ongoing third-party testing is a critical part of our business plan. These efforts can be time consuming and some of these efforts are costly, requiring adequate capital resources to continue such efforts. However we cannot give any assurance that adequate capital will be available or, if available, will be available on favorable terms. We are engaged in discussions with a number of third parties regarding potential research work in various fields that we hope will advance our commercial opportunities in those fields.

We spent $170,117 in 2009 and $100,564 in 2010 on research and development activities. Our research and development expenditures over the next 12 months could vary significantly and will depend upon our access to capital. Although we are actively pursuing such financing, no such commitment is yet in place. We would invest any such funds primarily on continued testing of our BioLargo technology in certain applications and the development of additional production methods for use of our BioLargo technology in certain applications.

Manufacturing

We do not presently intend to manufacture our Odor-No-More products, but rather contract with third parties to manufacture products under our own brands. (See "Odor-No-More Branded Products -Manufacturing", above.) We work with manufacturers on a contract-for-hire basis, or on a project-by-project basis with the potential for these manufacturers to create a product supplier relationship for potential licensees of products incorporating our BioLargo technology. These collaborative efforts will focus on design and specifications for production of pre-commercial samples of products and for actual commercial products. During 2010, we established a non-exclusive supplier relationship with the E.T. Horn Company, located in Southern California, to provide blending and packaging related services for our Odor-No-More products. We are currently negotiating with third party material components providers and manufacturers, and equipment manufacturers, to broaden the scope of application, manufacture and uses of our BioLargo technology, including E.T. Horn.

We use third party manufacturers to produce chemicals such as tablets and powders, and multiple suppliers of such absorbent materials and chemical reagents. We do not have exclusive arrangements or written agreements with any such manufacturers that we have used to date. We believe that we have several choices for manufacturers of chemicals and are not dependent upon any single manufacturer or source of materials. Most of the chemicals we use in the production of the tablets and powders for our BioLargo technology, such as potassium iodide, are not typically scarce or subject to price volatility, but there is no assurance that will not change in the future. With the execution of the Central Garden & Pet agreement, we anticipate that our requirement for absorbents and chemical reagents will increase, and there is no assurance that we will be able to supply the requirements.

The E.T. Horn Company has agreed to provide turn-key infrastructure for all materials handling, blending and ingredient supply or fulfillment requirements for the Central Garden & Pet agreement, on a cost-plus and margin participation equal to 1/3 of BioLargo's manufacturer's margin on each product sold to Central Garden & Pet by BioLargo. With existing nationwide distribution, we believe E.T. Horn's operations provide the infrastructure to support substantial sales to Central Garden & Pet across multiple product lines.

Licensing Efforts

We continue to devote a significant part of our resources to the marketing of our BioLargo technology and the Isan system to potential licensees. Our efforts with regard to our BioLargo technology is a continuation of the initial efforts we have undertaken since 2006. We recently signed an agreement with Central Garden & Pet Company, and continue our efforts with other potential licensees in other fields.

Competition

Large well-capitalized companies, such as Johnson & Johnson, BASF Corporation, Dow Chemical Co., E.I. DuPont De Nemours & Co., Chemical and Mining Company of Chile, Inc., Proctor and Gamble Co., Diversey, Inc., EcoLab, Inc., Steris Corp. and Siemens AG, and others, dominate each of their respective markets for disinfecting or sanitizing products. Each of these named companies and many other competitors are significantly more capitalized than we are and have many more years of experience in producing disinfecting or sanitizing products.

Our BioLargo technology and products incorporating our BioLargo technology would compete with many other applications currently on the market, as would the Isan system. In addition, we are aware of other companies engaged in research and development of other novel approaches to applications in some or all of the markets identified by us as potential fields of application for our products and the Isan system. Many of our present and potential competitors have substantially greater financial and other resources and larger research and development staffs than we have. Many of these companies also have extensive experience in testing and applying for regulatory approvals. In addition, colleges, universities, government agencies, and public and private research organizations conduct research and are becoming more active in seeking patent protection and licensing arrangements to collect royalties for the use of technology that they have developed, some of which may be directly competitive with our applications.

Regulation

Products incorporating our BioLargo technology may be regulated depending upon the application and the scientific claims made. We believe that the primary focus of our BioLargo technology is its disinfecting capability, and such claims are subject to FDA or EPA regulation. However, we believe that some products incorporating our BioLargo technology can be sold based on claims limited to deodorization, or enhanced holding or absorption capabilities only. We believe that such claims are not subject to FDA or EPA regulation. We believe that the Isan system will require either or both FDA and EPA approval prior to use in the United States, depending on the particular use.

The regulatory approvals for certain applications may be difficult, impossible, time consuming and or expensive to obtain. While management believes that such approvals are available for the applications contemplated, until we or others obtain any required approvals from the FDA, EPA or other Federal or state regulatory bodies, we may not be able to generate commercial revenues. Certain specific regulated applications require highly technical analysis, additional third party validation and will require regulatory approvals from agencies like the FDA. Accordingly, we can give no assurance as to the ultimate success in obtaining the necessary approvals from either the EPA or FDA. Under most licensing arrangements that we anticipate, it is the licensee who would bear the responsibility of all regulatory compliance, including good manufacturing process certifications for certain medical applications.

We do not believe that we make any regulated claims associated with our Odor-No-More products, and at this time no reason any such approvals would be required for these products.

Intellectual Property

We regard our intellectual property as critical to our ultimate success. Our goal is to obtain, maintain and enforce patent protection for our products and technologies, and to protect our trade secrets and proprietary information through laws and contractual arrangements.

We worked closely with Mr. Code and IOWC prior to the completion of the acquisition of certain intellectual property and assets from IOWC in April 2007 and have continued to work with Mr. Code since that time in his capacity as our Chief Technology Officer, to identify technology improvements and additional patent opportunities that expand on and enhance the original patents issued. At the same time, we have worked to secure additional third-party testing and validations for the efficacy and product claims associated with our BioLargo technology, namely through our work with ATS, the University of Hawaii, the Department of Environmental Engineering at UCLA, Oregon State University, and the University of Alberta, Canada.

Our original BioLargo technology consisted of certain intellectual property including two U.S. patents (U.S. Patent Numbers 6,146,725 and 6,328,929), relating to a process whereby disinfecting chemistry is incorporated into absorbent materials, liquids, powders, tablets or other delivery methods, that can be then incorporated into products in multiple industries. We have recently been awarded U.S. Patent No. 7,867,510 on January 11, 2011 which is directed to more stable iodine technology and one more U.S. Patent Application on improved iodine delivery systems and methods has received a Notice of Allowance. Seven additional patent applications have been filed with the United States Patent and Trademark Office (“USPTO”) and three additional patent applications have been filed with the International Patent Cooperation Treaty (“PCT”) relating to our BioLargo technology. Our BioLargo technology also includes know-how and trade secrets, which, together with our intellectual property, contribute to our expertise in product design, manufacturing, product claims, safety features and competitive positioning of products that feature our BioLargo technology. The BioLargo technology was originally developed by Kenneth Reay Code, our Chief Technology Officer, a director and our principal stockholder.

We believe that this suite of intellectual property covers the presently targeted major areas of focus for our licensing strategy. The description of our intellectual property, as present, is as follows:

Patents

- United States Patent 6,146,725, dated November 14, 2000, titled “absorbent composition”, relating to an absorbent composition to be used in the transport of specimens of bodily fluids

- United States patent 6,328,929, dated December 11, 2001, titled “Method of delivering disinfectant in an absorbent substrate”, relating to method of delivering disinfectant in an absorbent substrate

- United States patent 7,867,510, dated January 11, 2011, titled “Material having antimicrobial activity when wet”, relating to articles for delivering stable iodine-generating compositions.

Patent Applications

- USPTO Patent Application 11/516,958 (filed September 7, 2006), relating to the use of our BioLargo technology as a treatment for remediation and improvement of a mass such as sand or soil that has been contaminated with microbes such as bacteria, viruses, rickettsiae and fungi.

- USPTO Patent Application 11/516,960 (filed September 7, 2006), relating to the use of our BioLargo technology to provide protection against antimicrobial activity including the preventing of microbial build up that can occur, when used in close proximity to the bodies of human patients in product such as sheets, diapers, bandages compresses and the like (which has issued as U.S. Patent No. 7,867,510).

- USPTO Patent Application 11/973,933 (filed October 11, 2006), relating to the use of our BioLargo technology for antimicrobial protection, in environments such as offices, vehicle cabs, operating rooms, vehicle interiors, grain storage facilities and the like, that need to be protected from or cleansed of microbial or chemical material that might be of concern. The technology also includes proprietary coating and/or treatment of provided materials or reagents.

- USPTO Patent Application 12/001,073 (filed December 8, 2006), relating to the use of our BioLargo technology as a treatment of environments including fields, lawns, parks, orchards, farm fields, greenhouses to provide at least pesticidal activity.

- USPTO Patent Application 12/009,586 (filed January 18, 2007), relating to use of our BioLargo technology as a treatment of residue, deposits or coatings within large liquid carrying structures such as pipes, drains, ducts, conduits, run-offs, tunnels and the like, using iodine, delivered in a variety of physical forms and methods, including using its action to physically disrupt coatings. The iodine’s disruptive activity may be combined with other physical removal systems such as pigging, scraping, tunneling, etching or grooving systems or the like.

- USPTO Patent Application 12/012,297 (filed February 8, 2007), relating to the use of our BioLargo technology as protection of against antimicrobial activity in environments that need to be protected or cleansed of microbial or chemical material. These environments include closed and open environments and absorbent sheet materials that exhibit stability until activated by aqueous environments. The field also includes novel particle technology, coating technology or micro-encapsulation technology to control the stability of chemicals that may be used to kill or inhibit the growth of microbes to water vapor or humidity for such applications.

- USPTO Patent Application 12/220,484 (filed July 24, 2008), relating to the use of an article for application to a surface to provide antimicrobial and/or anti-odor activity. At least one of the reagents is coated with a water-soluble, water dispersible or water-penetrable covering that prevents ambient conditions of 50% relative humidity at 25ºC from causing more than 10% of the total reagents exposed to the ambient conditions from reacting in a twenty-four hour period

- PCT/US Patent Application 2007/07508 (filed March 27, 2007), claiming priority from at least some of the earlier USPTO Patent applications listed above, and expanded the scope of coverage to additional technologies such as packets for dishwashers.

- PCT/US Patent Application 2007/07515 (filed March 27, 2007), claiming priority from USPTO patent application 60/900,374 and its associated claims.

- PCT/US Patent Application filed December 3, 2008), claiming priority from USPTO patent application 12/001,073 and its associated claims.

In addition to these applications, we have filed patent applications in multiple foreign countries, including the European Union, pursuant to the PCT. Subject to adequate financing, we intend to continue to expand and enhance our suite of intellectual property through ongoing focus on product development, new intellectual property development and patent applications, and further third-party testing and validations for specific areas of focus for commercial exploitation. We currently anticipate that additional patent applications will be filed during the next 12 months with the USPTO and the PCT, although we are uncertain of the cost of such patent filings, which will depend upon the number of such applications prepared and filed. The expense associated with seeking patent rights in multiple foreign countries is expensive, and will require substantial ongoing capital resources. However we cannot give any assurance that adequate capital will be available. Without adequate capital resources, we will be forced to abandon patent applications and irrevocably lose rights to our technologies.

Corporate

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

After our name change, our common stock continued to trade through the National Quotation Service Bureau, commonly known as the "Pink Sheets", under our new trading symbol "BLGO", from March 21, 2007 through January 22, 2008. Since January 23, 2008, our common stock has been quoted on the OTC Bulletin Board under the trading symbol "BLGO".

In January 2010, we formed Odor-No-More, Inc., as a wholly owned subsidiary, to manufacture, market, sell and distribute our Odor-No-More product line.

Since February 2010, our offices have been located at 16333 Phoebe Ave, La Mirada, California, adjacent to the manufacturing facility and corporate offices of our national distributor, the E.T. Horn Company. Our telephone number is (949) 643-9540. Our principal corporate website is www.biolargo.com. We also archive investor and stockholder communications at www.biolargoshares.blogspot.com, and our subsidiary maintains its website at www.odornomore.com. The information on our websites and blog is not, and shall not be deemed to be, a part of this Report.

Executive Officers

As of December 31, 2010 our executive officers were:

- Dennis P. Calvert: Chief Executive Officer, President and Chairman of the Board

- Charles K. Dargan II: Chief Financial Officer

- Kenneth R. Code: Chief Technology Officer
- Joseph L. Provenzano: Corporate Secretary and Vice President of Operations

Mr. Provenzano was also appointed the President of our wholly owned subsidiary, Odor-No-More, Inc., which began operations in January 2010.

Employees

As of December 31, 2010, we employed three full-time employees. We also hire, on an as needed basis, consultants who provide certain specified services to us.

ITEM 1A. RISK FACTORS

The Company faces a number of significant risks associated with its current plan of operations. These include the following:

The effects of the recent global economic crisis may impact our business, operating results, and financial condition.

The recent global economic crisis has caused disruptions and extreme volatility in global financial markets and increased rates of default and bankruptcy, and has impacted levels of consumer spending. These macroeconomic developments could negatively affect our business, operating results, and financial condition in a number of ways. For example, current or potential customers may delay or decrease spending with us or may not pay us or may delay paying us for previously purchased products and services.

Our limited operating history makes evaluation of our business difficult.

We have limited historical financial data upon which to base planned operating expenses or forecast accurately our future operating results. Further, our limited operating history will make it difficult for investors and securities analysts to evaluate our business and prospects. Our failure to address these risks and difficulties successfully could seriously harm us.

We have never generated any significant revenues, have a history of losses, and cannot assure you that we will ever become or remain profitable.

We have not yet generated any significant revenue from operations and, accordingly, we have incurred net losses every year since our inception. To date, we have dedicated most of our financial resources to research and development, general and administrative expenses and initial sales and marketing activities. We have funded the majority of our activities through sales of our debt or securities. We anticipate net losses and negative cash flow to continue for the foreseeable future until such time as licensing or operating revenue is generated in sufficient amounts to offset operating losses. Our ability to achieve profitability is dependent upon our continuing research and development, product development, and sales and marketing efforts, and our ability to successfully license our BioLargo technology and/or the Isan system. There can be no assurance that our revenues will be sufficient for us to become profitable or thereafter maintain profitability. We may also face unforeseen problems, difficulties, expenses or delays in implementing our business plan.

Our cash requirements are significant. The failure to raise additional capital will have a significant adverse effect on our financial condition and its operations.

Our cash requirements and expenses will continue to be significant. Our net cash used from continuing operations for the years ended December 31, 2010 and 2009 was $1,296,556 and $1,369,394, respectively. These negative cash flows are primarily related to operating losses and, to a lesser extent, fluctuations in working capital items. We will continue to use cash in 2011 as it becomes available and we will require significant additional financing for working capital requirements for the remainder of 2011 and for the foreseeable future to continue the development, marketing and licensure of our technology and products based on our technology. Although we have been successful in raising funds in the past, there can be no assurance that we will be able to successfully raise funds in the future, especially in light of current adverse conditions in the capital markets and the weak economy generally. The failure to raise additional capital will have a significant adverse effect on our financial condition, our operations, and our ability to market and sell our products.

From time to time, we issue stock, instead of cash, to pay some of our operating expenses. These issuances are dilutive to our existing stockholders.

We are also a party to agreements that provide for the payment of, or permit us to pay at our option, securities in consideration for services provided to us. All such issuances are dilutive to our stockholders because they increase the total number of shares of our common stock issued and outstanding, even though such arrangements assist us with managing our cash flow at a time of increasing operating expenses coupled with decreased and further decreasing liquidity.

Our stockholders face further potential dilution in any new financing.

Any additional equity that we raise would dilute the interest of the current stockholders and any persons who may become stockholders before such financing. Given the low price of our common stock, such dilution in any financing of a significant amount could be substantial.

Our stockholders face further potential adverse effects from the terms of any preferred stock which may be issued in the future.

In order to raise capital to meet expenses or to acquire a business, our Board of Directors may issue additional stock, including preferred stock. Any preferred stock which we may issue may have voting rights, liquidation preferences, redemption rights and other rights, preferences and privileges. The rights of the holder's of our common stock will be subject to, and in many respect subordinate to, the rights of the holders of any such preferred stock. Furthermore, such preferred stock may have other rights, including economic rights, senior to our common stock that could have a material adverse effect on the value of our common stock. Preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, can also have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock, thereby delaying, deferring or preventing a change in control of the Company.

There are several specific business opportunities we are considering in further development of our business. None of these opportunities is yet the subject of a definitive agreement and most or all of these opportunities will require additional funding obligations on our part, for which funding is not currently in place.

In furtherance of our business plan, we are presently considering a number of opportunities to promote our business, to further develop and broaden, and to license, our technology with third parties. While discussions are underway with respect to such opportunities, there are no definitive agreements in place with respect to any of such opportunities at this time, other than the product evaluation agreement discussed in further detail. There can be no assurance that any such opportunities being discussed will result in definitive agreements or, if definitive agreements are entered into, that they will be on terms that are favorable to us.

Moreover, most if not all of these other opportunities, should they result in definitive agreements being entered into, would require us to expend additional monies above and beyond our current operating budget to promote such endeavors. No such financing is in place at this time for such endeavors and we cannot assure you that any such financing will be available, or if it is available whether it will be on terms that are favorable to the company.

The cost of maintaining our public company reporting obligations is high. We expect to incur increased costs under the Sarbanes-Oxley Act of 2002.

We are obligated to maintain our periodic public filings and public reporting requirements, on a timely basis, under the Rules and Regulations of the SEC. In order to meet these obligations, we will need to continue to raise capital. If adequate funds are not available, we will be unable to comply with those requirements and could cease to be qualified to have our stock traded in the public market. As a public company, we incur significant legal, accounting and other expenses. In addition, the Sarbanes-Oxley Act of 2002, as well as related rules adopted by the SEC, has imposed substantial requirements on public companies, including certain corporate governance practices and requirements relating to internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act.

There are significant risks relating to our BioLargo technology.

Our BioLargo technology is at an early stage of development. There is a risk that our BioLargo technology will not be commercially feasible or, even if our BioLargo technology is commercially feasible, it may not be commercially accepted. In addition, many products incorporating our BioLargo technology will require extensive research, development and testing before they can be commercialized. Many of these potential products, if any, also may involve lengthy regulatory reviews and require regulatory approval before they can be sold. There is no assurance, however, that any products incorporating our BioLargo technology will prove to be safe and effective, meet regulatory standards or continue to meet such standards if already approved. There is no assurance that we can market our BioLargo technology successfully as a licensor. Failure to achieve commercial feasibility, demonstrate safety, achieve clinical efficacy, obtain regulatory approval and/or, together with partners, successfully market products will negatively impact our revenues and results of operations. As a company with an unproven business strategy, our limited history of operations makes evaluation of our BioLargo technology as a business difficult. We may not attain profitable operations and our management may not succeed in realizing our business objectives.

We expect to incur future losses and may not be able to achieve profitability.

Although we are generating revenue from the sale of Odor-No-More products, and we expect to generate revenue from the Central Garden & Pet Company agreement, and eventually from other license or supply agreements, we anticipate net losses and negative cash flow to continue for the foreseeable future until such time as our products are expanded in the marketplace and they gain broader acceptance by resellers and customers. While our current level of sales may provide some indication of the potential for future sales, the current level of sales is not sufficient to support the financial needs of our business. We cannot predict when sales volumes will be sufficiently large to cover our operating expenses. The success of our Odor-No-More products is largely dependent upon the continued support by independent distributors and therefore, we cannot rely upon or control their activity. We intend to expand our marketing efforts as financial resources are available. We intend to significantly expand our research and development efforts. Consequently, we will need to generate significant additional revenue or seek additional funding to fund our operations. This has put a proportionate corresponding demand on capital. Our ability to achieve profitability is dependent upon our efforts to deliver a viable product and our ability to successfully bring it to market, which we are currently pursuing. Although our management is optimistic that we will succeed in licensing our BioLargo technology, we cannot be certain as to timing or whether we will generate sufficient revenue to be able to operate profitably. If we cannot achieve or sustain profitability, we may not be able to fund our expected cash needs or continue our operations If we are not able to devote adequate resources to promote commercialization of our BioLargo technology, our business plans will suffer.

Because we have limited resources to devote to sales, marketing and licensing efforts with respect to our BioLargo technology, any delay in such efforts may jeopardize future research and development of technologies, and commercialization of our BioLargo technology. Although our management believes that it can finance commercialization efforts through sales of our securities and possibly other capital sources, if we do not successfully

bring our BioLargo technology to market, our ability to generate revenues will be adversely affected.

There is no assurance that Central Garden & Pet Company will launch products containing our technology.

In March 2011, we entered into an license and supply agreement with Central Garden & Pet Company, the largest premium pet product company in the United States. The agreement grants to Central exclusive rights in the “pet supplies industry”, as that term is defined in the agreement. The agreement does not require that Central purchase a certain amount of product from us. While we believe that Central intends to incorporate our BioLargo technology into many of their products across product lines, and although they generate over $800,000,000 revenue annually from the sale of pet products, there is no assurance they will incorporate our technology into their products, and if they were to fail to do so, they would not be in breach of the agreement. Central has two years of exclusivity in the “pet supplies industry” irrespective of the amount of product, if any, they purchase from us, and we will have to wait two years, absent their agreement, to enter into a similar agreement with a third party for industry.

If we are not able to manage our anticipated growth effectively, we may not become profitable.

We anticipate that expansion will continue to be required to address potential market opportunities for our technology and our products. Our existing infrastructure is limited, is not scalable, and will not support future growth, if any. There can be no assurance that we will have the financial resources to create new infrastructure, or that any such infrastructure will be sufficiently scalable to manage future growth, if any. There also can be no assurance that if we continue to invest in additional infrastructure, we will be effective in expanding our operations or that our systems, procedures or controls will be adequate to support such expansion. In addition, we will need to provide additional sales and support services to our partners if we achieve our anticipated growth with respect to the sale of our technology for various applications. Failure to properly manage an increase in customer demands could result in a material adverse effect on customer satisfaction, our ability to meet our contractual obligations, and on our operating results.

We rely substantially on the E.T. Horn Company for portions of our operational infrastructure.

We rely on the E.T. Horn Company for distribution logistics for our products, and sublease office space from them for our corporate office. The E.T. Horn Company was founded in the early 1960’s, and its corporate office and blending facilities are located in their La Mirada, California facility. With over 200,000 square feet of office and industrial space in La Mirada, and eleven other locations across the United States, E.T. Horn distributes raw materials and products nationwide. We rely on E.T. Horn to distribute our Odor-No-More products, and intend to rely on them to blend materials and products ordered by Central Garden & Pet, and to package and deliver those products and materials to them on a timely basis and at the quality required by our customer. While we believe that the E.T. Horn Company has the capacity to meet our product demands in the foreseeable future for the pet supplies industry, there can be no assurance that they will have that capacity if we achieve our anticipated growth and sales in other industry sectors. If E.T. Horn were to cease operations, or had a disruption in service, it may affect our ability to meet the requirements of our customers. There is no assurance that we would be able to replace E.T. Horn in a timely manner, or that we would have the financial and human resources to create a similar distribution system.

Many of the products incorporating our BioLargo technology will require regulatory approval.

The products in which our BioLargo technology may be incorporated have both regulated and non-regulated applications. The Isan system, which we licensed from Ioteq, Inc. in 2010 and sublicensed to a third party, has only regulated applications. The regulatory approvals for certain applications may be difficult, impossible, time consuming and or expensive to obtain. While the management believes such approvals can be obtained for the applications contemplated, until those approvals from the FDA or the EPA or other regulatory bodies, if required, at the federal and state levels, as may be required are obtained, then we may not be able to generate commercial revenues. Certain specific regulated applications and its use therein require highly technical analysis, additional third party validation and will require regulatory approvals from organizations like the FDA. Certain applications may also be subject to additional state and local agency regulations, increasing the cost and time associated with commercial strategies. Additionally, most products incorporating our BioLargo technology that may be sold in the European Union ("EU") will require EU and possibly also individual country regulatory approval. All such approvals, including additional testing, are time-consuming, expensive and do not have assured outcomes of ultimate regulatory approval.

We need to outsource and rely on third parties for the manufacture of the chemicals, material components or delivery apparatus used in our BioLargo technology and part of our future success will be dependent on the timeliness and effectiveness of the efforts of these third parties.

We do not have the required financial and human resources or capability to manufacture the chemicals that comprise our BioLargo technology. Our business model calls for the outsourcing of the manufacture of these chemicals in order to reduce our capital and infrastructure costs as a means of potentially improving our financial position and the profitability of our business. Accordingly, we must enter into agreements with other companies that can assist us and provide certain capabilities, including sourcing and manufacturing, which we do not possess. We may not be successful in entering into such alliances on favorable terms or at all. Even if we do succeed in securing such agreements, we may not be able to maintain them. Furthermore, any delay in entering into agreements could delay the development and commercialization of our BioLargo technology or reduce its competitiveness even if they reach the market. Any such delay related to such future agreements could adversely affect our business.

If any party to which we have outsourced certain functions fails to perform its obligations under agreements with us, the commercialization of our BioLargo technology could be delayed or curtailed.

To the extent that we rely on other companies to manufacture the chemicals used in our BioLargo technology, or sell or market products incorporating our BioLargo technology, we will be dependent on the timeliness and effectiveness of their efforts. If any of these parties does not perform its obligations in a timely and effective manner, the commercialization of our BioLargo technology could be delayed or curtailed because we may not have sufficient financial resources or capabilities to continue such efforts on our own.

We rely on a small number of key supply ingredients in order to manufacture our products

All of the supply ingredients used to manufacture our products are readily available from multiple suppliers. However, commodity prices for these ingredients can vary significantly and the margins that we are able to generate could decline if prices rise. If our manufacturing costs rise significantly, we may be forced to raise the prices for our products, which may reduce their acceptance in the marketplace.

If our BioLargo technology or products incorporating our BioLargo technology do not gain market acceptance, it is unlikely that we will become profitable.

The potential markets for products into which our technology can be incorporated are rapidly evolving, and we have many successful competitors. At this time, our BioLargo technology is unproven in its commercial use, and the use of our BioLargo technology by others is nominal. The commercial success of products incorporating our BioLargo technology will depend upon the adoption of our BioLargo technology by commercial and consumer end users in various fields.

Market acceptance may depend on many factors, including:

- the willingness and ability of consumers and industry partners to adopt new technologies;
- our ability to convince potential industry partners and consumers that our BioLargo technology is an attractive alternative to other technologies for disinfection, sanitization, remediation, reduction of disease transfer and as a protective and safety device against biohazardous materials;
- our ability to obtain the chemicals from third parties that are used in our BioLargo technology, in sufficient quantities with acceptable quality and at an acceptable cost; and
- our ability to license our BioLargo technology in a commercially effective manner.

If products incorporating our BioLargo technology do not achieve a significant level of market acceptance, demand for our BioLargo technology itself may not develop as expected and, in such event, it is unlikely that we will become profitable.

Any revenues that we may earn in the future are unpredictable, and our operating results are likely to fluctuate from quarter to quarter.

We believe that our future operating results will fluctuate due to a variety of factors, including:

- delays in product development by us or third parties;
- market acceptance of products incorporating our BioLargo technology;
- changes in the demand for, and pricing, of products incorporating our BioLargo technology;
- competition and pricing pressure from competitive products;
- manufacturing delays; and
- expenses related to, and the results of, proceedings relating to our intellectual property.

We expect our operating expenses will continue to fluctuate significantly in 2011 and beyond, as we continue our research and development, and increase our marketing and licensing activities. Although we expect to generate revenues from licensing our BioLargo technology in the future, revenues may decline or not grow as anticipated and our operating results could be substantially harmed for a particular fiscal period. Moreover, our operating results in some quarters may not meet the expectations of stock market analysts and investors. In that case, our stock price most likely would decline.

We have no product distribution experience and we expect to rely on third parties who may not successfully sell our products.

We have no product distribution experience and currently rely and plan to rely primarily on product distribution arrangements with third parties. We also plan to license our technology to certain third parties for commercialization of certain applications. We expect to enter into additional distribution agreements and licensing agreements in the future, and we may not be able to enter into these additional agreements on terms that are favorable to us, if at all. In addition, we may have limited or no control over the distribution activities of these third parties. These third parties could sell competing products and may devote insufficient sales efforts to our products. As a result, our future revenues from sales of our products, if any, will depend on the success of the efforts of these third parties.

We may not be able to attract or retain qualified senior personnel.

We believe we are currently able to manage our current business with our existing management team. However, as we expand the scope of our operations, we will need to obtain the full-time services of additional senior management and other personnel. Competition for highly-skilled personnel is intense, and there can be no assurance that we will be able to attract or retain qualified senior personnel. Our failure to do so could have an adverse effect on our ability to implement our business plan. As we add full-time senior personnel, our overhead expenses for salaries and related items will increase from current levels and, depending upon the number of personnel we hire and their compensation packages, these increases could be substantial.

If we lose our key personnel or are unable to attract and retain additional personnel, we may be unable to achieve profitability.

Our future success is substantially dependent on the efforts of our senior management, particularly Dennis P. Calvert, our president and chief executive officer, and Kenneth Reay Code, our chief technology officer. The loss of the services of either of these officers or other members of our senior management may significantly delay or prevent the achievement of product development and other business objectives. Because of the scientific nature of our business, we depend substantially on our ability to attract and retain qualified marketing, scientific and technical personnel. There is intense competition among specialized and technologically-oriented companies for qualified personnel in the areas of our activities. If we lose the services of, or do not successfully recruit key marketing, scientific and technical personnel, the growth of our business could be substantially impaired. At present, we do not maintain key man insurance for any of our senior management.

Nondisclosure agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information.

In order to protect our proprietary technology and processes, we rely in part on nondisclosure agreements with our employees, potential licensing partners, potential manufacturing partners, testing facilities, universities, consultants, agents and other organizations to which we disclose our proprietary information. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover trade secrets and proprietary information, and in such cases we could not assert any trade secret rights against such parties. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position. Since we rely on trade secrets and nondisclosure agreements, in addition to patents, to protect some of our intellectual property, there is a risk that third parties may obtain and improperly utilize our proprietary information to our competitive disadvantage. We may not be able to detect unauthorized use or take appropriate and timely steps to enforce our intellectual property rights.

We may become subject to product liability claims.

As a business which manufactures and markets products for use by consumers and institutions, we may become liable for any damage caused by our products, whether used in the manner intended or not. Any such claim of liability, whether meritorious or not, could be time-consuming and/or result in costly litigation. Although we maintain general liability insurance, our insurance may not cover potential claims of the types described above and may not be adequate to indemnify for all liabilities that may be imposed. Any imposition of liability that is not covered by insurance or is in excess of insurance coverage could harm our business and operating results, and you may lose some or all of any investment you have made, or may make, in our company.

Litigation or the actions of regulatory authorities may harm our business or otherwise distract our management.

Substantial, complex or extended litigation could cause us to incur major expenditures and distract our management. For example, lawsuits by employees, former employees, shareholders, partners, customers, or others, or actions taken by regulatory authorities, could be very costly and substantially disrupt our business. Such lawsuits or actions could from time to time be filed against the Company and/or or our executive officers and directors. Such lawsuits and actions are not uncommon, and we cannot assure you that we will always be able to resolve such disputes or actions on terms favorable to the Company.

The licensing of our BioLargo technology or the manufacture, use or sale of products incorporating our BioLargo technology may infringe on the patent rights of others, and we may be forced to litigate if an intellectual property dispute arises.

If we infringe or are alleged to have infringed another party's patent rights, we may be required to seek a license, defend an infringement action or challenge the validity of the patents in court. Patent litigation is costly and time consuming. We may not have sufficient resources to bring these actions to a successful conclusion. In addition, if we do not obtain a license, do not successfully defend an infringement action or are unable to have infringed patents declared invalid, we may:

- incur substantial monetary damages;
- encounter significant delays in marketing our current and proposed product candidates;
- be unable to conduct or participate in the manufacture, use or sale of product candidates or methods of treatment requiring licenses;
- lose patent protection for our inventions and products; or
- find our patents are unenforceable, invalid, or have a reduced scope of protection.

Parties making such claims may be able to obtain injunctive relief that could effectively block the company's ability to further develop or commercialize our current and proposed product candidates in the United States and abroad and could result in the award of substantial damages. Defense of any lawsuit or failure to obtain any such license could substantially harm the company. Litigation, regardless of outcome, could result in substantial cost to, and a diversion of efforts by, the Company.

Our patents are expensive to maintain, our patent applications are expensive to prosecute, and we may face costly intellectual property disputes.

Our ability to compete effectively will depend in part on our ability to develop and maintain proprietary aspects of our technology and either to operate without infringing the proprietary rights of others or to obtain rights to technology owned by third parties. Pending patent applications relating to our BioLargo technology may not result in the issuance of any patents or any issued patents that will offer protection against competitors with similar technology. We must employ patent attorneys to prosecute our patent applications both in the United States and internationally. International patent protection requires the retention of patent counsel in multiple foreign countries and the payment of patent application fees in multiple foreign countries on or before filing deadlines set forth by the PCT. Our limited capital resources preclude us from filing for patent protection in every PCT member country, which has resulted, and will continue to result, in the irrevocable loss of patent rights in many foreign jurisdictions.

Patents we receive may be challenged, invalidated or circumvented in the future or the rights created by those patents may not provide a competitive advantage. We also rely on trade secrets, technical know-how and continuing invention to develop and maintain our competitive position. Others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets.

We are subject to risks related to future business outside of North America.

Over time, we may develop business relationships outside of North America, and as those efforts are pursued, we will face risks related to those relationships such as:

- foreign currency fluctuations;
- unstable political, economic, financial and market conditions;
- import and export license requirements;
- trade restrictions;
- increases in tariffs and taxes;
- high levels of inflation;
- restrictions on repatriating foreign profits back to the United States;
- greater difficulty collecting accounts receivable and longer payment cycles;
- less favorable intellectual property laws;
- Regulatory requirements;
- unfamiliarity with foreign laws and regulations; and
- changes in labor conditions and difficulties in staffing and managing international operations.

The volatility of certain raw material costs may adversely affect operations and competitive price advantages for products that incorporate our BioLargo technology.

While most of the chemicals and other key materials that we use in our business, such as minerals, fiber materials, and packaging materials are neither generally scarce nor price sensitive, but prices for such chemicals and materials can be cyclical. SAP beads, which are a petrochemical derivative, have been subject to periodic scarcity and price volatility from time to time during recent years, although prices are relatively stable at present. Supply and demand factors, which are beyond our control, generally affect the price of our raw materials. We try to minimize the effect of price increases through production efficiency and the use of alternative suppliers. If we are unable to minimize the effects of increased raw material costs, our business, financial condition, results of operations and cash flows may be materially adversely affected.

There are potential claims from prior business affiliates of IOWC regarding the BioLargo technology.

During the history of the development of the BioLargo technology, Mr. Code previously assigned the two patents registered with the USPTO, which we acquired in April 2007, to a third party company. Mr. Code believes that the agreement between IOWC, Mr. Code and this other party was breached and terminated, and such parties have no rights to any part of our BioLargo technology. Nonetheless, such parties, or their successors or assigns, could make claims of rights of ownership to all or some portion of our BioLargo technology. In the event of a legal dispute, a lengthy and costly legal defense would be required to defend against any such claims, and notwithstanding the Company's position in these potential disputes, the Company cannot predict the outcome of such litigation. Loss of our ownership of our BioLargo technology would have a serious adverse affect on our business and plan of operations. Any financial settlement of claims, including royalties we might have to pay to third parties, could have a material adverse affect on our results of operations.

Our common stock is thinly traded and largely illiquid.

Our stock is currently quoted on the OTCBB. Being quoted on the OTCBB has made it more difficult to buy or sell our stock and from time to time has lead to a significant decline in the frequency of trades and trading volume. Continued trading on the OTCBB will also likely adversely affect the Company's ability to obtain financing in the future due to the decreased liquidity of the Company's shares and other restrictions that certain investors have for investing in OTCBB traded securities. While the Company intends to seek listing on the Nasdaq Stock Market ("Nasdaq") or another stock exchange when the Company is eligible, there can be no assurance when or if the Company's common stock will be listed on Nasdaq or another stock exchange.

The market price of our stock is subject to volatility.

Because our stock is thinly traded, its price can change dramatically over short periods, even in a single day. An investment in our stock is subject to such volatility and, consequently, is subject to significant risk. The market price of our common stock could fluctuate widely in response to many factors, including:

- developments with respect to patents or proprietary rights;
- announcements of technological innovations by us or our competitors;
- announcements of new products or new contracts by us or our competitors;
- actual or anticipated variations in our operating results due to the level of development expenses and other factors;

- changes in financial estimates by securities analysts and whether any future earnings of ours meet or exceed such estimates;
- Conditions and trends in our industry;
- new accounting standards;
- general economic, political and market conditions and other factors; and
- the occurrence of any of the risks described in this Report.

You may have difficulty selling our shares because they are deemed “penny stocks”.

Because our common stock is not quoted on the Nasdaq National Market or Nasdaq Capital Market or listed on a national securities exchange, if the trading price of our common stock remains below $5.00 per share, trading in our common stock will be subject to the requirements of certain rules promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which require additional disclosure by broker-dealers in connection with any trades involving a stock defined as a penny stock (generally, any non-Nasdaq equity security that has a market price of less than $5.00 per share, subject to certain exceptions). Such rules require the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated therewith and impose various sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and accredited investors (generally defined as an investor with a net worth in excess of $1,000,000 or annual income exceeding $200,000 individually or $300,000 together with a spouse). For these types of transactions, the broker-dealer must make a special suitability determination for the purchaser and have received the purchaser’s written consent to the transaction prior to the sale. The broker-dealer also must disclose the commissions payable to the broker-dealer, current bid and offer quotations for the penny stock and, if the broker-dealer is the sole market-maker, the broker-dealer must disclose this fact and the broker-dealer’s presumed control over the market. Such information must be provided to the customer orally or in writing before or with the written confirmation of trade sent to the customer. Monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. The additional burdens imposed upon broker-dealers by such requirements could discourage broker-dealers from effecting transactions in our common stock, which could severely limit the market liquidity of the common stock and the ability of holders of the common stock to sell their shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our offices are located at 16333 Phoebe Ave, La Mirada, California 90638. We sublease our office space from the E.T. Horn Company.

ITEM 3. LEGAL PROCEEDINGS

As of December 31, 2010, there were no litigation proceedings.

ITEM 4. (REMOVED AND RESERVED)

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES

Market Information

Since January 23, 2008, our common stock has been quoted on the OTC Bulletin Board under the trading symbol "BLGO". Prior to that time, from October 31, 1998 until June 10, 2003, our common stock was listed on the Nasdaq Small Cap Market. From June 11, 2003 until January 22, 2008, our common stock was quoted on the Pink Sheets under the symbols "NMED" (from June 11, 2003 through March 21, 2007) and "BLGO" (from March 22, 2007 until January 22, 2008).

The table below represents the quarterly high and low bid prices for our common stock for the last two fiscal years as reported by Yahoo Finance.

	2009		2010	
	High	Low	High	Low
First Quarter	$ 0.89	$ 0.25	$ 0.70	$ 0.35
Second Quarter	$ 0.50	$ 0.25	$ 0.50	$ 0.25
Third Quarter	$ 0.60	$ 0.21	$ 0.40	$ 0.15
Fourth Quarter	$ 0.80	$ 0.31	$ 0.55	$ 0.35

The closing bid price for our common stock on April 13, 2011, was $0.50 per share. As of such date, there were approximately 581 registered owners of our common stock. We believe that the number of beneficial owners is substantially higher than this amount.

Dividends

We have never declared or paid a cash dividend to stockholders. We intend to retain any earnings which may be generated in the future to finance operations.

Securities Authorized for Issuance Under Equity Compensation Plans

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance (c)
Equity compensation plans approved by security holders	4,767,223	$ 0.51	1,232,777(1)
Equity compensation plans not approved by security holders	0	0	0
Total	4,767,223	$ 0.51	1,232,777

(1) Consists of 6,000,000 shares issuable under our 2007 Equity Incentive Plan (the "2007 Plan"). The 2007 Plan was adopted by our Board of Directors on August 7, 2007 and approved by our stockholders at the 2007 Annual Meeting of Stockholders on September 6, 2007. Upon the adoption of the 2007 Plan, a prior plan approved in 2004 was frozen and no further grants will be made under that.

Sales of Unregistered Securities

Spring 2008 Offering

Pursuant to a private offering that commenced March 2008 (the "Spring 2008 Offering") and terminated August 2008, we sold $913,545 of our 10% convertible notes (the "Spring 2008 Notes"), which are due and payable on March 31, 2010, to 30 investors, convertible into an aggregate 676,775 shares of our common stock. The Spring 2008 Notes are convertible into shares of our common stock at an initial conversion price of $1.35 per share. The Spring 2008 Notes can be converted voluntarily by the noteholders at any time prior to the maturity date. We can unilaterally convert the Spring 2008 Notes (i) on or after September 30, 2008, if we have received one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least $3 million gross proceeds of equity or debt; or (ii) on the maturity date. Accordingly, the Spring 2008 Notes may be repaid in cash or may be converted, at our sole option, into shares of our common stock, on or before the maturity date.

Each purchaser of the Spring 2008 Notes received, for no additional consideration, two stock purchase warrants (a one-year warrant and a three-year warrant), each of which entitled the holder to purchase the number of shares of our common stock into which the holder's Spring 2008 Note is initially convertible. The "Spring 2008 One-Year Warrants" expire on March 31, 2009 and were exercisable at $0.50 (originally $1.50) per share. The "Spring 2008 Three-Year Warrants" are exercisable at an initial exercise price of $2.00 per share and expire on March 31, 2011. On September 19, 2008, our Board of Directors reduced the exercise price of the Spring 2008 One-Year Warrants from $1.50 per share (the original exercise price pursuant to the terms of the Spring 2008 Offering) to $1.00 per share. On January 16, 2009, our Board of Directors reduced the exercise price of the Spring 2008 One-Year Warrants from $1.00 per share to $0.50 per share. The Spring 2008 One-Year Warrants expired unexercised on March 31, 2009.

On March 30, 2010, our board approved agreements mutually extending the maturity dates of the Spring 2008 Notes by one year, such that the Spring 2008 Notes matured on March 31, 2011. On March 31, 2011, per the terms of the Fall 2008 Notes, we elected to convert the remaining aggregate principal balance of $913,545 and $76,051 of accrued and unpaid interest into an aggregate 733,108 shares of our common stock.

Fall 2008 Offering

Pursuant to a private offering that commenced October 2008 (the "Fall 2008 Offering") and terminated March 2009, we sold $723,000 of our 10% convertible notes (the "Fall 2008 Notes"), which are due and payable October 15, 2011, to 18 investors, convertible into an aggregate 1,446,000 shares of our common stock. As originally offered, the Fall 2008 Notes were convertible into shares of our common stock at an initial conversion price of $1.00 per share. The Fall 2008 Notes can be converted voluntarily by the noteholders at any time prior to the maturity date. We can unilaterally convert the Fall 2008 Notes (i) on or after April 30, 2009, if we have received one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least $3 million gross proceeds of equity or debt; or (ii) on the maturity date. Accordingly, the Fall 2008 Notes may be repaid in cash or may be converted, at the noteholders' option or our option, into shares of our common stock, on or before the October 15, 2011 maturity date.

Each purchaser of the Fall 2008 Notes received, for no additional consideration, two stock purchase warrants (a one-year warrant and a three-year warrant), each of which entitled the holder to purchase the number of shares of our common stock into which the holder's Fall 2008 Note is initially convertible. As originally offered, the first warrant (the "Fall 2008 One-Year Warrant") was exercisable at $1.00 per share and was due to expire on October 15, 2009. The second warrant (the "Fall 2008 Three-Year Warrant" and together with the One-Year Warrant, the "Fall 2008 Warrants") was exercisable at $2.00 per share and was due to expire on October 15, 2011.

On January 16, 2009, our Board of Directors amended the terms of the Offering as follows: (i) the initial conversion price of the Fall 2008 Notes was reduced from $1.00 per share to $0.50 per share; (ii) the exercise price of the Fall 2008 One-Year Warrant was reduced from $1.00 per share to $0.75 per share; (iii) the exercise price of the Fall 2008 Three-Year Warrant was reduced from $2.00 per share to $1.00 per share; and the number of shares of our common stock for which the Fall 2008 One-Year Warrants and the Fall 2008 Three-Year Warrants may be exercised is being increased from one share per dollar invested to two shares for each dollar invested. The Fall 2008 One-Year Warrants expired unexercised on October 15, 2009.

Spring 2009 Offering

Pursuant to a private offering that commenced April 2009 (the "Spring 2009 Offering") and terminated November 2009, we sold $681,410 of our 10% convertible notes (the "Spring 2009 Notes"), which are due and payable on June 1, 2012, to 23 investors, convertible into an aggregate 1,238,935 shares of our common stock. The Spring 2009 Notes are convertible into shares of our common stock at an initial conversion price of $0.55 per share. The Spring 2009 Notes can be converted voluntarily by the noteholders at any time prior to the maturity date. We can unilaterally convert the Spring 2009 Notes (i) on or after December 15, 2009, if we have received one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least $3 million gross proceeds of equity or debt; or (ii) on the maturity date. Accordingly, the Spring 2009 Notes may be repaid in cash or may be converted, at our sole option, into shares of our common stock, on or before the June 1, 2012 maturity date.

Each purchaser of the Spring 2009 Notes received, for no additional consideration, two stock purchase warrants, each of which entitle the holder to purchase the number of shares of our common stock into which the holder's Spring 2009 Note is initially convertible. The first warrant (the "Spring 2009 One-Year Warrant") is exercisable at a price of $0.75 per share and initially was scheduled to expire on June 1, 2010. We extended this expiration date to December 1, 2010, and the warrants expired on that date, unexercised. The second warrant (the "Spring 2009 Three-Year Warrant") is exercisable at a price of $1.00 per share and expires on June 1, 2012.

Spring 2010 Offering

Pursuant to a private offering that commenced January 2010 (the "Spring 2010 Offering") and terminated July 2010, we sold $438,855 of our 10% convertible notes (the "Spring 2010 Notes"), which are due and payable on April 15, 2013, to 18 investors, the principal amount of which was converted into an aggregate 763,235 shares of our common stock. The Spring 2010 Notes are convertible into shares of our common stock at an initial conversion price of $0.575 per share. The Spring 2010 Notes can be converted voluntarily by the noteholders at any time prior to the maturity date. We can unilaterally convert the Spring 2010 Notes (i) on or after July 31, 2010, if we have received one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least $3 million gross proceeds of equity or debt; or (ii) on the maturity date. Accordingly, the Spring 2010 Notes may be repaid in cash or may be converted, at our sole option, into shares of our common stock, on or before the April 15, 2013 maturity date.

Each purchaser of the Spring 2010 Notes received, for no additional consideration, two stock purchase warrants, each of which entitle the holder to purchase the number of shares of our common stock into which the holder's Spring 2010 Note is initially convertible. The first warrant (the "Spring 2010 Eighteen Month Warrant") is exercisable at a price of $0.75 per share and expires on July 15, 2011. The second warrant (the "Spring 2010 Thirty-Six Month Warrant") is exercisable at a price of $1.00 per share and expires on January 15, 2013. (See Note 8.)

Summer 2010 Offering

Pursuant to a private offering of our common stock at a price of $0.30 per share, that commenced July 2010 (the "Summer 2010 Offering") and closed December 2010, we sold 3,775,012 shares of our common stock at $0.30 per share and received $1,027,500 gross proceeds from the sales. We issued 3,425,011 shares of our common stock related to this offering prior to December 31, 2010 and issued an additional 350,001 in 2011 upon the receipt of the additional $105,000 gross proceeds. Unlike our prior securities offerings, this offering did not involve the sale of convertible debt or warrants.

Stock Issuances in 2010

Payment of Officer Salaries and Board of Director Fees

On January 4, 2010, we issued an aggregate 114,287 shares of our common stock, at a conversion price of $0.70, which was the closing price of our common stock on the day of issuance, to two members of our board of directors in lieu of $80,000 in accrued and unpaid payables for their services as a director. Of this amount $60,000 related to payables accrued and unpaid as of December 31, 2009.

On August 4, 2010, in an effort to preserve our cash and reduce outstanding payables, the Board offered to third parties, officers and board members the opportunity to convert outstanding payable amounts into common stock ("Stock") or an option ("Option") to purchase common stock in lieu of cash payment. The Stock would be converted at $0.30 per share, and Options may be exercised at $0.30 cents a share, would be issued pursuant to our 2007 Equity Incentive Plan, and would expire five years from the date of issuance. Our common stock closed trading at $0.23 a share on August 4, 2010.

On August 4, 2010, we issued an aggregate 1,041,019 shares of our common stock, at a conversion price of $0.33, which was at a 10% premium to our officers, in lieu of $343,536 of accrued and unpaid salary obligations.

Payment of Consultant Fees

On February 1, 2010, we issued an aggregate 200,000 shares of our common stock, at a conversion price of $0.50, which was the closing price of our common stock on the day of issuance, to a consultant for services provided. We recorded $100,351 in consulting expense in 2010 related to that issuance.

On June 1, 2010, we issued an aggregate 56,525 shares of our common stock, at a conversion price of $0.53, which was the trailing 20 day average of our common stock, to a consultant for services provided in lieu of $30,000 in accrued and unpaid payables.

On July 27, 2010, we issued an aggregate 80,000 shares of our common stock, at a conversion price of $0.28, in lieu of $22,400 of fees related to consultants. All of this amount related to services performed in 2010. Also on July 27, 2010, we issued an aggregate 5,465 shares of our common stock, at prices ranging between $0.34 and $0.61 per shares, as payment of rent due pursuant our sublease agreement with the E.T. Horn Company.

On August 4, 2010, we issued an aggregate 59,039 shares of our common stock, at a conversion price of $0.30, in lieu of $17,712 of accrued and unpaid obligations. All of this amount related to services performed in 2009.

On August 30, 2010, we issued an aggregate 32,000 shares of our common stock, at a conversion price of $0.30, in lieu of $9,600 of accrued and unpaid obligations. All of this amount related to services performed in 2010.

On September 27, 2010, we issued an aggregate 80,000 shares of our common stock, at a conversion price of $0.28, in lieu of $22,400 of fees related to consultants. All of this amount related to services performed in 2010.

On December 22, 2010, we issued an aggregate 245,000 shares of our common stock, at a conversion price of $0.50, in lieu of $122,500 of accrued and unpaid obligations. All of this amount related to services performed in 2010.

Payment of Accrued interest

During the year ended December 31, 2010 and pursuant to the terms of the 2008 Spring Notes, we converted an aggregate $91,363 of accrued and unpaid interest related to the Spring 2008 Notes into 268,019 shares of our common stock at conversion prices ranging $0.22 - $0.46 per share.

On October 15, 2010 and pursuant to the terms of the 2008 Fall Notes, we converted an aggregate $72,300 of accrued and unpaid interest related to the Fall 2008 Notes into 207,470 shares of our common stock at conversion price of $0.35 per share.

On June 1, 2010 and pursuant to the terms of the Spring 2009 Notes, we converted an aggregate $42,234 of accrued and unpaid interest related to the Fall 2008 Notes into 109,851 shares of our common stock at conversion price of $0.38 per share.

Conversion of 2007 convertible notes

Pursuant to a private offering that commenced May 2007 (the “2007 Offering”) and terminated December 2007, we sold $1,000,000 of our convertible notes (the “2007 Notes”), which were initially due and payable on June 30, 2009 (extended by one year to June 30, 2010) to 21 investors, the principal of which is convertible into an aggregate 1,428,582 shares of our common stock. The 2007 Notes interest rate was 10%, compounding annually. On November 23, 2009, a holder of a 2007 Note in the principal amount of $32,000 elected to convert the note, and accrued and unpaid interest in the amount of $8,364, into 57,663 shares of our common stock, at a conversion rate of $0.70 per share in accordance with the terms of the note.

On June 30, 2010, per the terms of the 2007 Notes, we elected to convert the remaining aggregate principal amount of $968,000, which amount represented the entire then outstanding principal amount of the 2007 Notes, and $283,618 of accrued but unpaid interest, into an aggregate 1,788,032 shares of our common stock, at a conversion rate of $0.70 per share.

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

ITEM 6. SELECTED FINANCIAL DATA

Not applicable

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

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

This discussion contains forward-looking statements that involve risks and uncertainties. Such statements, which include statements concerning future revenue sources and concentration, 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 above in Part I, Item 1 and elsewhere in this Annual Report, particularly in "Risk Factors," that could cause actual results to differ materially from those projected. The forward-looking statements set forth in this Annual Report are as of December 31, 2010 unless expressly stated otherwise, and we undertake no duty to update this information.

Overview

We continued to develop our first commercial products based on our BioLargo technology in 2010, and generated total revenues of $156,761 from product sales.

We continue to be limited in terms of our capital resources. Our net cash used in operating activities for the year ended December 31, 2010 was $1,296,556. This amount was financed primarily by our private securities offerings. We will need to raise significant additional capital in order to sustain our operations in 2011.

Results of Operations—Comparison of the year ended December 31, 2010 and 2009

We generated revenues of $156,761 during the year ended December 31, 2010, as compared with $138,133 of revenues during the year ended December 31, 2009. During the year ended December 31, 2010, we incurred a net loss of $5,742,341, and we used cash in operations of $1,296,556.

Revenue

We generated $156,761 in revenues during the year ended December 31, 2010, and $138,133 in revenues during the year ended December 31, 2009. The revenues primarily consist of sales of our Odor-No-More branded products to the animal health industry. Although we had a slight increase in sales in the year ended December 31, 2010 versus 2009, the products are still in the early stages of the sales and distribution process and therefore it is not a meaningful variance.

Cost of Goods Sold

Our cost of goods sold during 2010 was $125,484 or 80% of revenues, as compared with $114,551 in 2009, or 83% of 2009 revenues. 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 only recently launched our first products, and we have not achieved a large revenue base, our cost of goods sold in both dollars and percentage will be higher and will fluctuate greater than we anticipate in future years. The difference in the percentage in 2010 versus 2009 is due to such fluctuations.

Impairment expense

Impairment expense totaled $8,781,133 for the year ended December 31, 2009. The impairment was recorded December 31, 2009 and is related to our intangible assets which included Licensing rights and Assignment agreements acquired from IOWC in April 2007. Management performed its assessment of the fair value of the intangible assets for the year ended December 31, 2009. In our undertaking we analyzed the projected cash flow from the assets discounted at appropriate rates, the length of time to full development of the cash flow potential and the current recessionary state of the world-wide economy. We determined that after this detailed analysis that it was appropriate for us to record an impairment charge.

Selling, General and Administrative Expense

Selling, General and Administrative expenses were $4,119,728 for the year ended December 31, 2010, compared to $3,960,570 for the year ended December 31, 2009, an increase of $159,158. The largest components of these expenses were:

a. Salaries and Payroll-related Expenses: These expenses were $1,562,212 for the year ended December 31, 2010, compared to $1,828,607 for the year ended December 31, 2009, a decrease of $266,395. The decrease in the year is related to the non-cash stock option compensation expense issued to our officers and directors in February 2010 off set by the end of the amortization of accrued option compensation expense for an option issued to our Chief Executive Officer in 2007.

b. Consulting Expenses: These expenses were $1,417,915 for the year ended December 31, 2010, compared to $1,074,434 for the year ended December 31, 2009, an increase of $343,481, respectively. The increase in the year ended December 31, 2010 is primarily attributable to non-cash stock option compensation expense and stock issued for services to consultants.

c. Professional Fees: These expenses were $304,893 for the year ended December 31, 2010, compared to $271,453 for the year ended December 31, 2009, an increase of $33,400. This activity is consistent with our usage of professionals for accounting, auditing and legal costs associated with our operations.

d. Other Expense: These expenses were $187,075 for the year ended December 31, 2010, compared to $155,000 for the year ended December 31, 2009, an increase of $32,075. The expenses incurred in 2009 and 2010 were the result of the obligations pursuant to an agreement with Ioteq.

Research and Development

Research and development expenses were $100,564 for the year ended December 31, 2010, compared to $170,117 for the year ended December 31, 2009, a decrease of $69,553 related to a reduction of university studies and patent application and prosecutions as compared to 2009, as well our limited financial resources during 2010.

Amortization and depreciation expense

Amortization and depreciation expense totaled $9,564 for the year ended December 31, 2010, compared to $1,116,768 for the year ended December 31, 2009, a decrease of $1,107,204. The decrease is attributable to the impairment expense recorded December 31, 2009, in which we reduced the value of the intangible assets acquired from IOWC Technologies, Inc. in April 2007 to zero. Management performed its assessment of the fair value of the intangible assets for the year ended December 31, 2009. In our undertaking we analyzed the projected cash flow from the assets discounted at appropriate rates, the length of time to full development of the cash flow potential and the current recessionary state of the world-wide economy. We determined that after this detailed analysis that it was appropriate for us to record an impairment charge.

Net Loss

Net loss for the year ended December 31, 2010 was $5,742,341, a loss of $0.13 per share, compared to a net loss for the year ended December 31, 2009 of $15,612,532, a loss of $0.37 per share. The decrease in net loss for the year ended December 31, 2009 is primarily attributable to the non-cash amortization expense related to our intangible assets which were fully impaired as of December 31, 2009. This is offset somewhat from the non-cash option expense related to the issuance of options to the management team and common stock to consultants for services provided, recorded in 2010.

Interest expense

Interest expense totaled $1,667,555 for the year ended December 31, 2010, compared to $1,626,230 for the year ended December 31, 2009, an increase of $41,325. The increase is primarily due to the amortization of the discount based on the fair value of the warrants issued in connection with our convertible debt.

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 $425,069 at December 31, 2010. We had negative working capital of $1,935,767 for the year ended December 31, 2010, compared with negative working capital of $3,300,820 for the year ended December 31, 2009. We had negative cash flow from operating activities of $1,296,556 for the year ended December 31, 2010, compared to a negative cash flow from operating activities of $1,369,394 for the year ended December 31, 2009. We used cash from financing activities to fund operations. Although we have reduced our negative cash flows from operations and we have reduced our negative working capital position in the year ended December 31, 2010, our cash position is insufficient to meet our continuing anticipated expenses or fund anticipated operating expenses. Accordingly, we will be required to raise significant additional capital to sustain operations and further implement our business plan and we may be compelled to reduce or curtail certain activities to preserve cash.

The financial statements accompanying this report have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of our business. As reflected in the accompanying financial statements, we had a net loss of $5,742,341 for the year ended December 31,

2010, and an accumulated stockholders' deficit of $63,510,905 as of December 31, 2010. 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 financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

As of December 31, 2010 we had $2,876,810 aggregate principal amount, together with $164,694 accrued and unpaid interest, outstanding on various promissory notes. We may pay all of these amounts in cash or in stock, at our option, at maturity. In addition, as of December 31, 2010, we had $545,725 in accrued and unpaid payables.

We continue to be limited in terms of our capital resources. During the year ended December 31, 2010, we received gross and net proceeds of $1,606,275 pursuant to a private offering of our securities, a note payable and the exercise of a warrant . We will be required to raise substantial additional capital to expand our operations, including without limitation, hiring additional personnel, additional scientific and third-party testing, costs associated with obtaining regulatory approvals and filing additional patent applications to protect our intellectual property, and possible strategic acquisitions or alliances, as well as to meet our liabilities as they become due for the next 12 months. We may also be compelled to reduce or curtail certain activities to preserve cash.

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

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

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

Critical Accounting Policies

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

The methods, estimates and judgments the Company uses in applying these most critical accounting policies have a significant impact on the results of the Company reports in its financial statements.

We anticipate that revenue will come from two sources: sales of Odor-No-More products and from royalties and license fees from our intellectual property. Odor-No-More revenue is recognized upon shipment of the product and all other contingencies have been met. Licensees typically pay a license fee in one or more installments and ongoing royalties based on their sales of products incorporating or using our licensed intellectual property. License fees are recognized over the estimated period of future benefit to the average licensee.

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

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

In January 2010, the FASB issued guidance related to accounting for distributions with components of both stock and cash. This amended guidance clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limit on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively. This guidance is effective for fiscal years beginning after December 15, 2009. The adoption of this standard effective January 1, 2010 did not have a material impact on the Company's financial position, results of operations, or cash flows.

In January 2010, the FASB issued guidance related to improving disclosures about fair value measurements. The new guidance addresses, among other things, guidance regarding disclosure of the different classes of assets and liabilities, valuation techniques and inputs used, activity in Level 3 fair value measurements, and the transfers between levels. The guidance is in effect for the year ended December 31, 2010 and there was no impact on our consolidated financial statements.

Other 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not applicable

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements as of and for the years ended December 31, 2009 and 2010 are presented in a separate section of this report following Item 14 and begin with the index on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Jeffrey S. Gilbert was previously the principal accountant for the Company. On March 21, 2011, Jeffrey S. Gilbert resigned as the Company's principal accountant, and Haskell & White LLP was engaged as principal accountants to audit the accounts of the Company for the year ended December 31, 2010. The decision to change accountants was approved by the Registrant's Audit Committee.

During the fiscal years ended December 31, 2008 and 2009 and through the date of this Report, there were no disagreements with Jeffrey S. Gilbert on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which disagreement, if not resolved to the satisfaction of Jeffrey S. Gilbert, would have caused him to make reference to the matter of such disagreement in connection with this Report. The accountant's report for the fiscal years ended December 31, 2008 and 2009 did not contain an adverse opinion or a disclaimer of opinion, nor were such reports qualified or modified as to uncertainty, audit scope, or accounting principles. However, the accountant's report for the fiscal years ended December 31, 2008 and 2009 contained an explanatory paragraph noting the Company's limited liquid resources, recurring losses, negative cash flow from operations, and the need to raise capital to fund corporate maintenance and to implement its business plan, which matters raise substantial doubt about its ability to continue as a going concern.

During the Company's two most recent fiscal years and through the date of this Report, the Company has had no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

On March 22, 2011, the Company provided Jeffrey S. Gilbert with a copy of the disclosures it is making in response to item 304(a) of the Securities Act. The Company requested that Jeffrey S. Gilbert furnish it with a letter addressed to the Securities and Exchange Commission stating whether he agrees with the above statements, and if not, stating the respects in which he does not agree. A copy of that letter is filed as Exhibit 16.1 to this report.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Under the supervision and with the participation of our management, including our Chief Executive Officer and the Chief Financial Officer, we have established internal control procedures in accordance with the guidelines established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") for smaller public companies, and through its evaluation of those internal control procedures, our management concluded that our internal controls over financial reporting are effective as of December 31, 2010.

This Annual Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the SEC that permit the company to provide only management's report in this Annual Report.

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls or our internal control over financial reporting, or any system we design or implement in the future, will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of any system of controls is based in part on 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.

Changes in Internal Control

There have not been any changes in our internal control over financial reporting during the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

Certain information required by Part III is incorporated by reference from our Information Statement to be filed with the SEC in connection with the actions of our majority shareholder in lieu of holding a 2011 Annual Meeting of Stockholders (the "Information Statement").

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required by this section is incorporated by reference from the section entitled "Proposal 1—Election of Directors" in the Information Statement. Item 405 of Regulation S-B calls for disclosure of any known late filing or failure by an insider to file a report required by Section 16 of the Exchange Act. This disclosure is incorporated by reference to the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" in the Information Statement. The information required by this Item with respect to our executive officers is contained in Item 1 of Part I of this Annual Report under the heading "Business—Executive Officers".

ITEM 11. EXECUTIVE COMPENSATION

The information required by this section is incorporated by reference from the information in the section entitled "Executive Compensation" in the Information Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this section is incorporated by reference from the information in the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the Information Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this section is incorporated by reference from the information in the section entitled "Certain Relationships and Related Transactions" in the Information Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this section is incorporated by reference from the information in the section entitled "Ratification of Appointment of Independent Auditor" in the Information Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

The following documents are filed as a part of this report:

1. Financial Statements. The consolidated financial statements required to be filed in this report are listed on the Index to Financial Statements immediately preceding the financial statements.

2. Financial Statement Schedules. Separate financial statement schedules have been omitted either because they are not applicable or because the required information is included in the consolidated financial statements or the notes thereto.

3. Exhibits. See the Exhibit No. Index for a list of the exhibits being filed or furnished with or incorporated by reference into this report.

Exhibit No.	Description of Exhibit
3.1	Amended and Restated Certificate of Incorporation filed March 16, 2007(4)
3.2	Certificate of Designations creating Series A Preferred Stock (2)
3.3	Bylaws, as amended and restated (1)
4.1	Warrant Number AG-II to Purchase Common Stock issued July 29, 2005 issued to Augustine II, LLC ()
4.2	Form of Warrant issued in the Fall 2006 Offering (4)
4.3	Form of Promissory Note issued in the 2007 Offering (8)
4.4	Form of Warrant issued in the 2007 Offering (8)
4.5	Form of Convertible Promissory Note issued in the Spring 2008 Offering (10)
4.6	Form of One-Year Warrant issued in the Spring 2008 Offering (10)
4.7	Form of Three-Year Warrant issued in the Spring 2008 Offering (10)
4.8	Form of Warrant to Purchase Common Stock issued to SC Capital Partners, LLC (10)
4.9	Form of Convertible Promissory Note issued in the Fall 2008 Offering (12)
4.10	Form of One-Year Warrant issued in the Fall 2008 Offering (12)
4.11	Form of Three-Year Warrant issued in the Fall 2008 Offering (12)
4.12	Amended Form of Convertible Promissory Note issued in the Spring 2008 Offering (12)
4.13	Amended Form of One-Year Warrant issued in the Spring 2008 Offering (12)
4.14	Amended Form of Three-Year Warrant issued in the Spring 2008 Offering (12)
4.15	Form of Convertible Promissory Note issued in the Spring 2009 Offering (15)
4.16	Form of One-Year Warrant issued in the Spring 2009 Offering (15)

4.17	Form of Three-Year Warrant issued in the Spring 2009 Offering (15)
4.18	Promissory Note (Masteller) (15)
4.19	Form of Convertible Promissory Note issued in the Spring 2010 Offering (16)
4.20	Form of Eighteen Month Warrant issued in the Spring 2010 Offering (16)
4.21	Form of Thirty-Six Month Warrant issued in the Spring 2010 Offering (16)
10.1†	Employment Agreement dated as of April 30, 2007 between the Company and Dennis P. Calvert (4)
10.2†	Employment Agreement dated as of April 30, 2007 between the Company and Kenneth R. Code (4)
10.3	BioLargo, Inc. 2007 Equity Incentive Plan (5)
10.4†	Employment Agreement dated as of January 1, 2008 between BioLargo, Inc. and Joseph L. Provenzano (6)
10.5	Consulting Agreement dated as of January 1, 2008 between BioLargo, Inc. and Jeffrey C. Wallace (6)
10.6	Consulting Agreement dated as of January 1, 2008 between BioLargo, Inc. and Robert C. Szolomayer (6)
10.7†	Engagement Agreement dated February 1, 2008 between BioLargo, Inc. and Charles K. Dargan, II (7)
10.8	Consulting Agreement dated as of November 6, 2008 between BioLargo, Inc. and Howard Isaacs (9)

10.9	Form of Warrant issued to Howard Isaacs (9)
10.10	Agreement dated as of August 19, 2008 by and among BioLargo, Inc., BioLargo Life Technologies, Inc., and Ioteq IP, Ltd. and Ioteq, Inc. (10)
10.11	Sublease Agreement dated as of November 13, 2008 (10)
10.12†	Engagement Extension Agreement dated as of February 1, 2010 between BioLargo, Inc. and Charles K. Dargan, II. (13)
10.13†	Engagement Extension Agreement dated as of February 1, 2011 between BioLargo, Inc. and Charles K. Dargan, II. (17)
10.14	Sublicense Agreement by and between Ioteq Inc., a Delaware corporation, and BioLargo, Inc. (15)
10.15	Amendment No. 1 to Marketing Agreement (Agreement dated as of August 19, 2008 by and among BioLargo, Inc., BioLargo Life Technologies, Inc., and Ioteq IP, Ltd. and Ioteq, Inc.) (14)
10.16	Sublicense Agreement by and between BioLargo, Inc., and Isan USA, Inc. (14)
10.17	Agency Agreement by and between BioLargo, Inc., and Isan USA, Inc. (14)
10.18	Agreement between BioLargo, Inc., and its subsidiaries, and Central Garden & Pet Company (18)
21.1*	List of Subsidiaries of the Registrant
23.1*	Consent of Jeffrey S. Gilbert, CPA, independent registered public accounting firm
23.2*	Consent of Haskell & White LLP, independent registered public accounting firm
24.1*	Power of Attorney (included on Signature Page)
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
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
32.1*	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

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*	Filed herewith.
†	Management contract or compensatory plan, contract or arrangement
(1)	Incorporated herein by reference from the 10-KSB filed by the Company for the year ended December 31, 2002.
(2)	Incorporated herein by reference from the Form 10-KSB filed by the Company for the year ended December 31, 2003.
(3)	Incorporated herein by reference from the Form 10-QSB filed by the Company for the three-month period ended March 31, 2005.
(4)	Incorporated herein by reference from the Form 10-KSB filed by the Company for the year ended December 31, 2007.
(5)	Incorporated herein by reference from the Form 10-QSB for the three-month period ended September 30, 2007.
(6)	Incorporated herein by reference from the Form 8-K filed by the Company on January 16, 2008.
(7)	Incorporated herein by reference from the Form 8-K filed by the Company on February 4, 2008.
(8)	Incorporated herein by reference from the Form 10-KSB filed by the Company for the year ended December 31, 2007
(9)	Incorporated herein by reference from the Form 8-K filed by the Company on November 12, 2008.
(10)	Incorporated herein by reference from the Form 10-QSB for the three-month period ended September 30, 2007.
(11)	Incorporated herein by reference from the Form 8-K filed by the Company on February 24, 2009.
(12)	Incorporated herein by reference from the Form 10-K filed by the Company for the year ended December 31, 2008
(13)	Incorporated herein by reference from the Form 8-K filed by the Company on February 5, 2010.
(14)	Incorporated herein by reference from the Form 8-K filed by the Company on March 31, 2010.
(15)	Incorporated herein by reference from the Form 10-Q for the three-month period ended June 30, 2009.
(16)	Incorporated herein by reference from the Form 10-K filed by the Company for the year ended December 31, 2009
(17)	Incorporated herein by reference from the Form 8-K filed by the Company on March 23, 2011.
(18)	Incorporated herein by reference from the Form 8-K filed by the Company on March 28, 2011.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BIOLARGO, INC.

Date: April 15, 2011

By: /s/ Dennis P. Calvert
Dennis P. Calvert
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints, jointly and severally, Dennis P. Calvert and Joseph L. Provenzano, and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the date indicated:

Name	Title	Date
/s/ Dennis P. Calvert Dennis P. Calvert	Chairman of the Board, Chief Executive Officer and President	April 15, 2011
/s/ Charles K. Dargan II Charles K. Dargan II	Chief Financial Officer (principal financial officer and principal accounting officer)	April 15, 2011
/s/ Kenneth R. Code Kenneth R. Code	Chief Technology Officer and Director	April 15, 2011
/s/ Joseph L. Provenzano Joseph L. Provenzano	Executive Vice President, Corporate Secretary and Director	April 15, 2011
/s/ Gary A. Cox Gary A. Cox	Director	April 15, 2011
/s/ Dennis E. Marshall Dennis E. Marshall	Director	April 15, 2011

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Report of Independent Registered Public Accounting Firm

To the Board of Directors
BioLargo, Inc.

We have audited the accompanying consolidated balance sheet of BioLargo, Inc. (the "Company") as of December 31, 2010, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the year ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of BioLargo, Inc. as of December 31, 2010, and the consolidated results of its operations and its cash flows for the year ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses, negative cash flows from operations and has limited capital resources and a net stockholders' deficit. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/S/ HASKELL & WHITE LLP

Irvine, California
April 15, 2011

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
BioLargo, Inc.

I have audited the consolidated balance sheet of BioLargo, Inc. and Subsidiary (the "Company") as of December 31, 2009 and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these consolidated financial statements based on my audits.

I conducted my audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, I express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. I believe my audits provide a reasonable basis for my opinion.

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of BioLargo, Inc. and Subsidiary as of December 31, 2009 and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has limited liquid resources, recurring losses, negative cash flow from operations, and is seeking to raise capital which will allow it to fund corporate maintenance and to implement its business plan, which requires the Company to exploit its acquired technology. These matters raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also discussed in Note 1. The consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

/s/ JEFFREY S. GILBERT

Los Angeles, California
March 30, 2010

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

BIOLARGO, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2009 AND DECEMBER 31, 2010

	December 31, 2009	December 31, 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$135,350	$425,069
Accounts receivable	14,607	16,216
Inventory	9,678	7,813
Prepaid expenses	4,586	3,815
Total current assets	164,221	452,913
FIXED ASSETS		
Equipment, net	16,390	6,826
Total fixed assets	16,390	6,826
TOTAL ASSETS	$180,611	$459,739
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$1,273,028	$710,419
Accrued option compensation expense	679,210	—
Convertible notes payable, current portion	1,913,625	1,636,625
Discount on convertible notes, current portion net of amortization	(470,822)	(211,364)
Note payable	70,000	120,000
Deferred revenue	—	115,500
Deposit	—	17,500
Total Current Liabilities	3,465,041	2,388,680
LONG-TERM LIABILITIES		
Convertible notes payable, net of current portion	1,372,410	1,120,185
Discount on convertible notes, net of current portion and amortization	(793,523)	(456,243)
Total Long-term Liabilities	578,887	663,942
TOTAL LIABILITIES	4,043,928	3,052,622
COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS (see Notes 14 and 16)		
STOCKHOLDERS' EQUITY(DEFICIT)		

Convertible Preferred Series A, $.00067 Par Value, 50,000,000 and 25,000,000 Shares Authorized, -0- Shares Issued and Outstanding, at December 31, 2010 and December 31, 2009.	—	—
Common Stock, $.00067 Par Value, 200,000,000 Shares Authorized, 51,782,619 and 43,196,355 Shares Issued, at December 31, 2010 and December 31, 2009, respectively	28,969	34,734
Additional Paid-In Capital	53,876,278	60,883,288
Accumulated Deficit	(57,768,564)	(63,510,905)
Total Stockholders' Equity(Deficit)	(3,863,317)	(2,592,883)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY(DEFICIT)	$180,611	$459,739

See accompanying notes to consolidated financial statements

BIOLARGO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2010

	2009	2010
Revenue	$ 138,133	$ 156,761
Total revenue	138,133	156,761
Cost of goods sold	114,551	125,484
Total cost of goods sold	114,551	125,484
Gross Profit	23,582	31,277
Costs and expenses		
Impairment of intangible asset	8,781,133	—
Selling, general and administrative	3,960,570	4,119,728
Research and development	170,117	100,564
Amortization and depreciation	1,116,768	9,564
Total costs and expenses	14,028,588	4,229,856
Loss from operations	(14,005,006)	(4,198,579)
Other income and (expense)		
Interest expense	(1,626,230)	(1,667,555)
Other income	18,704	123,793
Net other expense	(1,607,526)	(1,543,762)
Net loss	$ (15,612,532)	$ (5,742,341)
Loss per common share – basic and diluted	$ (0.37)	$ (0.13)
Weighted average common share equivalents outstanding	42,656,519	45,818,844

See accompanying notes to consolidated financial statements

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BIOLARGO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2010

	COMMON STOCK NUMBER OF SHARES	COMMON STOCK PAR VALUE $0.00067	ADDITIONAL PAID IN CAPITAL	RETAINED EARNINGS (DEFICIT)	TOTAL
BALANCE DECEMBER 31, 2008	42,261,268	$28,319	$ 49,481,805	$(42,156,032)	$7,354,092
Issuance of warrants as part of convertible note offering	—	—	1,266,443	—	1,266,443
Fair value of warrant repricing	—	—	423,735	—	423,735
Vested portion of stock options	—	—	1,704,906	—	1,704,906
Issuance of stock options to Board of Directors	—	—	204,638	—	204,638
Issuance of stock option to related party	—	—	253,784	—	253,784
Issuance of stock options to consultants	—	—	103,790	—	103,790
Issuance of stock of services	549,103	378	254,997	—	255,375
Conversion of convertible note payable accrued interest obligations	385,984	233	150,219	—	150,452
Conversion of convertible note payable principal obligations	57,663	39	31,961	—	32,000
Net Loss year ended December 31, 2009	—	—	—	(15,612,532)	(15,612,532)
BALANCE DECEMBER 31, 2009	43,196,355	$28,969	$ 53,876,278	$(57,768,564)	$(3,863,317)
Vested portion of stock options	—	—	1,747,801	—	1,747,801
Issuance of warrants as part of convertible note offering and note payable	—	—	450,327	—	450,327
Fair value of the six-month extension of the 2009 Warrant	—	—	277,992	—	277,992
Issuance of stock options and a warrant to consultants	—	—	512,441	—	512,441
Issuance of stock options to officers and Board of Directors	—	—	555,026	—	555,026
Issuance of stock for the exercise of a warrant	320,000	215	39,785	—	40,000
Issuance of stock for cash received from the Summer 2010 PPM	3,425,011	2,310	1,025,190	—	1,027,500
Issuance of stock for services to consultants	758,029	513	339,706	—	340,219

Issuance of stock for services to officers and board of directors	1,155,306	776	422,760	—	423,536
Issuance of stock for an accrued and unpaid obligation to a related party, New Millennium	454,546	305	149,695	—	150,000
Conversion of 2007 Offering of convertible notes and related accrued interest obligations	1,788,032	1,209	1,250,409	—	1,251,618
Conversion of the accrued interest obligations related to the 2009 Spring Notes	109,851	34	42,200	—	42,234
Conversion of the accrued interest obligations related to the 2008 Spring Notes	268,019	196	91,585	—	91,781
Conversion of 2008 Fall Offering of convertible notes and related accrued interest obligations	207,470	140	72,160	—	72,300
Conversion of a portion of the principal of a note payable obligation	100,000	67	29,933	—	30,000
Net Loss year ended December 31, 2010	—	—	—	(5,742,341)	(5,742,341)
BALANCE DECEMBER 31, 2010	51,782,619	$ 34,734	$ 60,883,288	$ (63,510,905)	$ (2,592,883)

See accompanying notes to consolidated financial statements

BIOLARGO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR YEARS ENDED DECEMBER 31, 2009 AND 2010

	2009	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$(15,612,532)	$(5,742,341)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Impairment of intangible assets	8,781,133	—
Non-cash interest expense related to the amortization of the fair value of warrants issued in conjunction with our convertible notes	1,343,021	1,325,057
Non-cash accrued option compensation expense	1,226,704	1,068,591
Non-cash expense related to options issued to officers and board of directors	—	455,786
Non-cash expense related to stock issued to our officers and board of directors to settle obligations	—	135,457
Non-cash expense related to warrants and options issued to consultants	646,500	317,949
Non-cash expense related to stock issued for settlement of obligations to consultants	373,140	340,219
Amortization and depreciation expense	1,116,768	9,564
Increase in accounts payable and accrued expenses	780,157	659,135
Increase in deferred revenue	—	115,500
Increase in deposits	—	17,500
Increase in accounts receivable	(14,607)	(1,609)
(Increase) Decrease in inventory	(9,678)	1,865
Decrease in prepaid expenses	—	771
Net Cash Used In Operating Activities	(1,369,394)	(1,296,556)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of note payable	—	(20,000)
Proceeds from exercise of warrant	—	40,000
Proceeds from convertible notes	1,344,360	438,775
Proceeds from the sale of stock	—	1,027,500
Proceeds from a note payable	70,000	100,000
Net Cash Provided By Financing Activities	1,414,360	1,586,275
NET INCREASE IN CASH AND CASH EQUIVALENTS	44,966	289,719
CASH AND CASH EQUIVALENTS — BEGINNING	90,384	135,350
CASH AND CASH EQUIVALENTS — ENDING	$135,350	$425,069
SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION		
Cash Paid During the Period for:		
Interest	$—	$—
Taxes	$1,600	$3,000
Conversion of accrued expenses to shares of the Company's common stock:		
Board of Directors and officer obligations incurred in 2009 and prior	$150,000	$228,079
Board of Directors and officer obligations incurred in 2010	$—	$135,457

Consultant obligations incurred in 2009 and prior	$81,527	$25,212
Consultant obligations incurred in 2010	$ —	$132,100
Conversion related party obligations – New Millennium and other	$251,701	$150,000
Conversion of accrued expenses to an option to purchase shares of the Company's common stock:		
Board of Directors and officer obligations incurred in 2009	$ —	$133,786
Board of Directors and officer obligations incurred in 2010	$ —	$15,454
Consultant obligations incurred in 2009	$ —	$117,653
Consultant obligations incurred in 2010	$ —	$116,593
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Conversion of Noteholder debt and accrued interest into shares of the Company's common stock:		
Conversion of the 2007 Notes	$ —	$968,000
Accrued and unpaid interest incurred in 2009 and prior	$150,452	$294,326
Accrued and unpaid interest incurred in 2010	$ —	$195,188
Conversion of a portion of a note payable	$32,000	$30,000
Fair value of the issuance of warrants in conjunction with convertible note offerings	$1,266,443	$430,327
Issuance of a warrant in conjunction with a note payable	$—	$20,000
Issuance of a warrant to a consultant for services provided	$—	$25,000
Repriced warrants in conjunction with convertible note offering	$423,735	$277,992

See accompanying notes to consolidated financial statements

BIOLARGO, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Business and Organization

Outlook

The 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 $5,742,341 for the year ended December 31, 2010, and an accumulated stockholders' deficit of $63,510,905 as of December 31, 2010. 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 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 was $425,069 at December 31, 2010. We generated revenues of $156,761 in the year ended December 31, 2010, which amount was not sufficient to fund our operations, and we incurred negative cash flow from operating activities of $1,296,556 for the year ended December 31, 2010. We had negative working capital of $1,935,767 for the year ended December 31, 2010. Our accounts payable and accrued expenses decreased by $562,609 during the year ended December 31, 2010 and were $710,419 at December 31, 2010. We do not have enough cash or source 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. Additionally, our officers are continuing to finance operations by delaying the receipt of their salary and by incurring expenses which have not been reimbursed.

As of December 31, 2010 we had $2,876,810 aggregate principal amount, together with $164,694 accrued and unpaid interest, outstanding on various promissory notes. We may pay the majority of these amounts in cash or in stock, at our option, at maturity. In addition, as of December 31, 2010, we had $545,725 in accrued and unpaid payables. (See Note 11.)

We continue to be limited in terms of our capital resources. During the year ended December 31, 2010, we received gross and net proceeds of $1,606,275 pursuant to a private offering of our securities (see Note 5), a note payable (see Note 12) and the exercise of a warrant. We will be required to raise substantial additional capital to expand our operations, including without limitation, hiring additional personnel, additional scientific and third-party testing, costs associated with obtaining regulatory approvals and filing additional patent applications to protect our intellectual property, and possible strategic acquisitions or alliances, as well as to meet our liabilities as they become due for the next 12 months. We may also be compelled to reduce or curtail certain activities to preserve cash.

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

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BIOLARGO, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Organization

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

Business Overview

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

Our BioLargo technology delivers "nature's best solution" – iodine – to an array of problems, including odor and moisture control, disinfection, and contaminated water. Our technology enables us to deliver precise dosing of iodine in a variety of physical forms and delivery systems, which often include the combination of chemical reagents with other materials. We primarily focus on developing uses and/or applications for our technology for its use in products, in order for us to secure a licensing and/or supplier agreement with other companies, that will in turn, sell services or products to their customers within a specific industry segment.

Armed with a solution to these problems, our BioLargo technology has potential commercial applications within global industries, including animal health, oil and gas extraction, agriculture and livestock, beach and soil environmental remediation, consumer products, food processing, medical, and water industries. While we believe the potential applications are many, we have developed and commercially launched products in one area -- the animal health industry, under the brand name "Odor-No-More", and recently entered into an exclusive license and supply agreement with Central Garden & Pet Company, the industry leading producer of premium pet products in the United States. While we continue to advance our efforts to market and sell our Odor-No-More products, with the addition of two key industry experts to our team, we are also actively seeking opportunities for product sales or licensing in the oil and gas industry, and the food processing industry.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

As of December 31, 2010, we had two subsidiaries, BioLargo Life Technologies, Inc. ("BLTI") and Odor-No-More, Inc. ("ONM"). The consolidated balance sheets include the accounts of BioLargo, Inc. and BLTI and ONM. All significant inter-company balances have been eliminated in consolidation.

Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of three months or less or money market funds from substantial financial institutions to be cash equivalents. We place substantially all of our cash and cash equivalents

with one financial institution. The Company had cash deposits as U.S banks at December 31, 2010, of which $175,069 was in excess of the Federal Deposit Insurance Corporation insurance limit of $250,000 per owner. The Company is exposed to credit loss for amounts in excess of insured limits in the event of non-performance by the institution, however, the Company does not anticipate non-performance.

BIOLARGO, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounts Receivable

Trade accounts receivable are recorded net of allowances for doubtful accounts. Estimates for allowances for doubtful accounts are determined based on payment history and individual customer circumstances. The allowance for doubtful accounts was $4,000 at December 31, 2010.

Inventory

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

	December 31, 2009	December 31, 2010
Raw Materials	$ 4,241	$ 5,013
Finished Goods	5,437	2,800
Total	$ 9,678	$ 7,813

Equipment

Equipment is carried at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which is three years. Equipment is stated on the balance sheet net of accumulated depreciation of $21,862 as of December 31, 2010. Depreciation expense totaled $9,564 for the years ended December 31, 2009 and 2010.

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 years ended December 31, 2009 and 2010, 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.

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.

BIOLARGO, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Options and Warrants issued for Services

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.

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 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.

Recently issued Accounting Guidance

In January 2010, the FASB issued guidance related to accounting for distributions with components of both stock and cash. This amended guidance clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limit on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively. This guidance is effective for fiscal years beginning after December 15, 2009. The adoption of this standard effective January 1, 2010 did not have a material impact on the Company’s financial position, results of operations, or cash flows. Other recent accounting updates 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.

In January 2010, the FASB issued guidance related to improving disclosures about fair value measurements. The new guidance addresses, among other things, guidance regarding disclosure of the different classes of assets and liabilities, valuation techniques and inputs used, activity in Level 3 fair value measure ments, and the transfers between levels. The guidance is in effect for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

Note 3. Intangible Assets/Long-lived Assets and Impairment

Amortization expense for the intangible assets for years ended December 31, 2009 and 2010 was $1,107,204 and $0.

Management performed its assessment of the fair value of the intangible assets for the year ended December 31, 2009. In our undertaking we analyzed the projected cash flow from the assets discounted at appropriate rates, the length of time to full development of the cash flow potential and the current recessionary state of the world-wide economy. We determined after this analysis that it was appropriate for us to record an impairment charge of $8,781,133 consisting of $8,610,940, which was the remaining net book value of our licensing rights acquired from IOWC Technologies, Inc., in March 2007, and $170,193, which was the remaining net book value of certain agreements assigned to us as part of the technology we acquired from IOWC Technologies, Inc., in March 2007. The impairment charge reduced the net book value of all our intangible assets to zero.

BIOLARGO, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Deferred Revenue

Sublicense to Isan USA

On March 29, 2010, we entered into a sublicense agreement (the "Isan USA Sublicense") with Isan USA, Inc. ("Isan USA") which grants Isan USA the exclusive rights to use, exploit, develop and commercialize the Isan System Technology in the United States, in particular fields of use. Pursuant to the Isan USA Sublicense, Isan USA paid to BioLargo a $100,000 initial license fee, of which $7,500 is recorded as revenue as of December 31, 2010.

During the three-month period ended December 31, 2010, we received $23,000 from Isan USA, an amount which was less than what is called for in the Isan USA Sublicense, and which is recorded as deferred revenue. The total deferred revenue balance of $115,500 as of December 31, 2010 relates to the Isan USA transaction.

Note 5. Private Security Offerings

The following tabular summary describes some key terms of our private securities offerings in which we sold convertible promissory notes, this information should be read in conjunction with the detailed descriptions in this footnote.

Convertible Offerings

Name	Maturity Date	Interest	Conversion Price	Principal Outstanding
Spring 2010 Offering	4/15/13	10%	$ 0.575	$ 438,855
Spring 2009 Offering	6/1/12	10%	$ 0.55	681,410
Fall 2008 Offering	10/15/11	10%	$ 0.50	723,000
Spring 2008 Offering	3/31/11	10%	$ 1.35	913,545
				$ 2,756,810

Summer 2010 Offering

Pursuant to a private offering of our common stock at a price of $0.30 per share, that commenced July 2010 (the "Summer 2010 Offering") and closed December 2010, we sold 3,775,012 shares of our common stock at $0.30 per share and received $1,027,500 gross proceeds from the sales. We issued 3,425,011 shares of our common stock related to this offering prior to December 31, 2010 and issued an additional 350,001 in 2011 upon the receipt of the additional $105,000 gross proceeds. Unlike our prior securities offerings, this offering did not involve the sale of convertible debt or warrants.

BIOLARGO, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spring 2010 Offering

Pursuant to a private offering that commenced January 2010 (the "Spring 2010 Offering") and terminated July 2010, we sold $438,855 of our 10% convertible notes (the "Spring 2010 Notes"), which are due and payable on April 15, 2013, to 18 investors, the principal amount of which was converted into an aggregate 763,235 shares of our common stock. The Spring 2010 Notes are convertible into shares of our common stock at an initial conversion price of $0.575 per share. The Spring 2010 Notes can be converted voluntarily by the noteholders at any time prior to the maturity date. We can unilaterally convert the Spring 2010 Notes (i) on or after July 31, 2010, if we have received one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least $3 million gross proceeds of equity or debt; or (ii) on the maturity date. Accordingly, the Spring 2010 Notes may be repaid in cash or may be converted, at our sole option, into shares of our common stock, on or before the April 15, 2013 maturity date.

Each purchaser of the Spring 2010 Notes received, for no additional consideration, two stock purchase warrants, each of which entitle the holder to purchase the number of shares of our common stock into which the holder's Spring 2010 Note is initially convertible. The first warrant (the "Spring 2010 Eighteen Month Warrant") is exercisable at a price of $0.75 per share and expires on July 15, 2011. The second warrant (the "Spring 2010 Thirty-Six Month Warrant") is exercisable at a price of $1.00 per share and expires on January 15, 2013. (See Note 8.)

Spring 2009 Offering

Pursuant to a private offering that commenced April 2009 (the "Spring 2009 Offering") and terminated November 2009, we sold $681,410 of our 10% convertible notes (the "Spring 2009 Notes"), which are due and payable on June 1, 2012, to 23 investors, convertible into an aggregate 1,238,935 shares of our common stock. The Spring 2009 Notes are convertible into shares of our common stock at an initial conversion price of $0.55 per share. The Spring 2009 Notes can be converted voluntarily by the noteholders at any time prior to the maturity date. We can unilaterally convert the Spring 2009 Notes (i) on or after December 15, 2009, if we have received one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least $3 million gross proceeds of equity or debt; or (ii) on the maturity date. Accordingly, the Spring 2009 Notes may be repaid in cash or may be converted, at our sole option, into shares of our common stock, on or before the June 1, 2012 maturity date.

Each purchaser of the Spring 2009 Notes received, for no additional consideration, two stock purchase warrants, each of which entitle the holder to purchase the number of shares of our common stock into which the holder's Spring 2009 Note is initially convertible. The first warrant (the "Spring 2009 One-Year Warrant") is exercisable at a price of $0.75 per share and initially was scheduled to expire on June 1, 2010. We extended this expiration date to December 1, 2010. The second warrant (the "Spring 2009 Three-Year Warrant") is exercisable at a price of $1.00 per share and expires on June 1, 2012. (See Note 8.)

Fall 2008 Offering

Pursuant to a private offering that commenced October 2008 (the "Fall 2008 Offering") and terminated March 2009, we sold $723,000 of our 10% convertible notes (the "Fall 2008 Notes"), which are due and payable October 15, 2011, to 18 investors, convertible into an aggregate 1,446,000 shares of our common stock. As originally offered, the Fall 2008 Notes were convertible into shares of our common stock at an initial conversion price of $1.00 per share. The Fall 2008 Notes can be converted voluntarily by the noteholders at any time prior to the maturity date. We can unilaterally convert the Fall 2008 Notes (i) on or after April 30, 2009, if we have received one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least $3 million gross proceeds of

equity or debt; or (ii) on the maturity date. Accordingly, the Fall 2008 Notes may be repaid in cash or may be converted, at the noteholders' option or our option, into shares of our common stock, on or before the October 15, 2011 maturity date.

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Each purchaser of the Fall 2008 Notes received, for no additional consideration, two stock purchase warrants (a one-year warrant and a three-year warrant), each of which entitled the holder to purchase the number of shares of our common stock into which the holder's Fall 2008 Note is initially convertible. As originally offered, the first warrant (the "Fall 2008 One-Year Warrant") was exercisable at $1.00 per share and was due to expire on October 15, 2009. The second warrant (the "Fall 2008 Three-Year Warrant" and together with the One-Year Warrant, the "Fall 2008 Warrants") was exercisable at $2.00 per share and is scheduled to expire on October 15, 2011. (See Note 8.)

On January 16, 2009, our Board of Directors amended the terms of the Offering as follows: (i) the initial conversion price of the Fall 2008 Notes was reduced from $1.00 per share to $0.50 per share; (ii) the exercise price of the Fall 2008 One-Year Warrant was reduced from $1.00 per share to $0.75 per share; (iii) the exercise price of the Fall 2008 Three-Year Warrant was reduced from $2.00 per share to $1.00 per share; and the number of shares of our common stock for which the Fall 2008 One-Year Warrants and the Fall 2008 Three-Year Warrants may be exercised is being increased from one share per dollar invested to two shares for each dollar invested. The Fall 2008 One-Year Warrants expired unexercised on October 15, 2009.

Spring 2008 Offering

Pursuant to a private offering that commenced March 2008 (the "Spring 2008 Offering") and terminated August 2008, we sold $913,545 of our 10% convertible notes (the "Spring 2008 Notes"), which were due and payable on March 31, 2010 (extended by one year to March 21, 2011), to 30 investors, convertible into an aggregate 676,775 shares of our common stock. The Spring 2008 Notes are convertible into shares of our common stock at an initial conversion price of $1.35 per share. The Spring 2008 Notes can be converted voluntarily by the noteholders at any time prior to the maturity date. We can unilaterally convert the Spring 2008 Notes (i) on or after December 31, 2008, if we have received one or more written firm commitments, or have closed on one or more transactions, or a combination of the foregoing, of at least $3 million gross proceeds of equity or debt; or (ii) on the maturity date. Accordingly, the Spring 2008 Notes may be repaid in cash or may be converted, at our sole option, into shares of our common stock, on or before the maturity date.

Each purchaser of the Spring 2008 Notes received, for no additional consideration, two stock purchase warrants (a one-year warrant and a three-year warrant), each of which entitled the holder to purchase the number of shares of our common stock into which the holder's Spring 2008 Note is initially convertible. The "Spring 2008 One-Year Warrants" expire on March 31, 2009 and were exercisable at $0.50 (originally $1.50) per share. The "Spring 2008 Three-Year Warrants" are exercisable at an initial exercise price of $2.00 per share and expire on March 31, 2011. On September 19, 2008, our Board of Directors reduced the exercise price of the Spring 2008 One-Year Warrants from $1.50 per share (the original exercise price pursuant to the terms of the Spring 2008 Offering) to $1.00 per share. On January 16, 2009, our Board of Directors reduced the exercise price of the Spring 2008 One-Year Warrants from $1.00 per share to $0.50 per share. The Spring 2008 One-Year Warrants expired unexercised on March 31, 2009.

On March 31, 2011, per the terms of the Spring 2008 Notes, we elected to convert the remaining aggregate principal balance of $913,545 and $76,051 of accrued and unpaid interest into an aggregate 733,108 shares of our common stock. (See Note 15.)

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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 6. Conversion of 2007 Notes

Pursuant to a private offering that commenced May 2007 (the "2007 Offering") and terminated December 2007, we sold $1,000,000 of our convertible notes (the "2007 Notes"), which were initially due and payable on June 30, 2009 (extended by one year to June 30, 2010) to 21 investors, the principal of which is convertible into an aggregate 1,428,582 shares of our common stock. The 2007 Notes interest rate was 10%, compounding annually. On November 23, 2009, a holder of a 2007 Note in the principal amount of $32,000 elected to convert the note, and accrued and unpaid interest in the amount of $8,364, into 57,663 shares of our common stock, at a conversion rate of $0.70 per share in accordance with the terms of the note.

On June 30, 2010, per the terms of the 2007 Notes, we elected to convert the remaining aggregate principal amount of $968,000, which amount represented the entire then outstanding principal amount of the 2007 Notes, and $283,618 of accrued but unpaid interest, into an aggregate 1,788,032 shares of our common stock, at a conversion rate of $0.70 per share.

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 7. Issuance of Securities in exchange for payment of payables

Payment of Officer Salaries and Board of Director Fees

On January 4, 2010, we issued an aggregate 114,287 shares of our common stock, at a conversion price of $0.70, which was the closing price of our common stock on the day of issuance, to two members of our board of directors in lieu of $80,000 in accrued and unpaid payables for their services as a director.

On August 4, 2010, in an effort to preserve our cash and reduce outstanding payables, the Board offered to third parties, officers and board members the opportunity to convert outstanding payable amounts into common stock ("Stock") or an option ("Option") to purchase common stock in lieu of cash payment. The Stock would be converted at $0.30 per share, and Options may be exercised at $0.30 cents a share, would be issued pursuant to our 2007 Equity Incentive Plan, and would expire five years from the date of issuance. Our common stock closed trading at $0.23 a share on August 4, 2010.

On August 4, 2010, we issued an aggregate 1,041,019 shares of our common stock, at a conversion price of $0.33, which was at a 10% premium to our officers, in lieu of $343,536 of accrued and unpaid salary obligations. Of this amount $228,079 related to services performed in 2009 and the remaining $115,457 related to services performed through June 30, 2010.

Payment of Consultant Fees

On February 1, 2010, we issued an aggregate 200,000 shares of our common stock, at a conversion price of $0.50, which was the closing price of our common stock on the day of issuance, to a consultant for services provided. We

recorded $100,351 in consulting expense in 2010 related to that issuance.

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On June 1, 2010, we issued an aggregate 56,525 shares of our common stock, at a conversion price of $0.53, which was the trailing 20 day average of our common stock, to a consultant for services provided in lieu of $30,000 in accrued and unpaid payables.

On July 27, 2010, we issued an aggregate 80,000 shares of our common stock, at a conversion price of $0.28, in lieu of $22,400 of fees related to consultants. All of this amount related to services performed in 2010. Also on July 27, 2010, we issued an aggregate 5,465 shares of our common stock, at prices ranging between $0.34 and $0.61 per shares, as payment of rent due pursuant our sublease agreement with the E.T. Horn Company.

On August 4, 2010, we issued an aggregate 59,039 shares of our common stock, at a conversion price of $0.30, in lieu of $17,712 of accrued and unpaid obligations. All of this amount related to services performed in 2009.

On August 30, 2010, we issued an aggregate 32,000 shares of our common stock, at a conversion price of $0.30, in lieu of $9,600 of accrued and unpaid obligations. All of this amount related to services performed in 2010.

On September 27, 2010, we issued an aggregate 80,000 shares of our common stock, at a conversion price of $0.28, in lieu of $22,400 of fees related to consultants. All of this amount related to services performed in 2010.

On December 22, 2010, we issued an aggregate 245,000 shares of our common stock, at a conversion price of $0.50, in lieu of $122,500 of accrued and unpaid obligations. All of this amount related to services performed in 2010.

Payment of Accrued interest

During the year ended December 31, 2010 and pursuant to the terms of the 2008 Spring Notes, we converted an aggregate $91,363 of accrued and unpaid interest related to the Spring 2008 Notes into 268,019 shares of our common stock at conversion prices ranging $0.22 - $0.46 per share.

On October 15, 2010 and pursuant to the terms of the 2008 Fall Notes, we converted an aggregate $72,300 of accrued and unpaid interest related to the Fall 2008 Notes into 207,470 shares of our common stock at conversion price of $0.35 per share.

On June 1, 2010 and pursuant to the terms of the Spring 2009 Notes, we converted an aggregate $42,234 of accrued and unpaid interest related to the Fall 2008 Notes into 109,851 shares of our common stock at conversion price of $0.38 per share.

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

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Note 8. Warrants

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

	Number of Shares	Price Range
Outstanding as of December 31, 2008	5,559,697	$ 0.125 – 2.00
Issued	5,129,870	$ 0.75 – 1.25
Exercised	—	—
Expired	(923,111)	$ 0.50 – 0.875
Outstanding as of December 31, 2009	9,766,456	$ 0.125 – 2.00
Issued	1,627,842	$ 0.50 – 1.00
Exercised	(320,000)	$ 0.125
Expired	(4,180,083)	$ 0.75 – 1.30
Outstanding as of December 31, 2010	6,894,215	$ 0.375 – 2.00

To determine interest expense related to our outstanding warrants issued in conjunction with debt offerings, the fair value of each award grant is estimated on the date of grant using the Black-Scholes option-pricing model and the calculated value is amortized over the shorter of the term of the debt or 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:

	2009	2010
Risk free interest rate	0.40 – 1.70%	0.24 – 1.38%
Expected volatility	253 – 493%	400 – 765%
Expected dividend yield	—	—
Forfeiture rate	—	—
Expected life in years	0.50 – 3.00	1.00 – 3.00

The risk-free interest rate is based on U.S Treasury yields in effect at the time of grant. Expected volatilities are based on historical volatility of our common stock. The expected term is presumed to be the mid-point between the vesting date and the end of the contractual term.

Warrants issued as part of our Convertible Notes

We recorded $1,343,021 and $1,325,057 of interest expense related to the amortization of the discount on convertible notes for the year ended December 31, 2009 and 2010, respectively.

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Spring 2010 Warrants

From the inception of our Spring 2010 Offering on January 15, 2010, through its termination in July 2010, we issued warrants to purchase up to an aggregate 1,527,842 shares of our common stock to purchasers of our Spring 2010 Notes, consisting of Spring 2010 Eighteen Month Warrants to purchase up to an aggregate 763,235 shares which expire July 15, 2011, at an exercise price of $0.75 per share, and Spring 2010 Thirty-Six Month Warrants to purchase up to an aggregate 763,235 shares which expire January 15, 2013, at an exercise price of $1.00 per share. The fair value of these warrants resulted in a discount on our convertible notes totaling $430,327 and we recorded $200,739 in interest expense related to the amortization of the discount during the year ended December 31, 2010.

Spring 2009 Warrants

From April 2009 through November 2009, we issued warrants to purchase up to an aggregate 2,477,870 shares of our common stock to purchasers of our Spring 2009 Notes, consisting of Spring 2009 One-Year Warrants to purchase up to an aggregate 1,238,935 shares which were originally scheduled to expire June 1, 2010, and were extended to December 1, 2010, at an exercise price of $0.75 per share, and Spring 2009 Three-Year Warrants to purchase up to an aggregate 1,238,935 shares which expire June 1, 2012, at an exercise price of $1.00 per share. The fair value of the initial warrants resulted in a discount on our convertible notes totaling $640,000 and we recorded $113,019 and $300,326 in interest expense related to the amortization of the discount during the years ended December 31, 2009 and 2010, respectively.

On June 1, 2010, the expiration of the Spring 2009 One-Year Warrants was extended from June 1, 2010 through December 1, 2010, resulting in additional fair value totaling $277,992, which was recorded as interest expense through December 31, 2010.

Fall 2008 Warrants

Pursuant to the terms of the Fall 2008 Notes, we issued warrants to purchase up to an aggregate 2,892,000 shares of our common stock to purchasers of our Fall 2008 Notes, consisting of Fall 2008 One-Year Warrants to purchase an aggregate 1,446,000 shares which expired October 15, 2009, at an exercise price of $0.75 per share (initially issued at $1.00 per share), and Fall 2008 Three-Year Warrants to purchase up to an aggregate 1,446,000 shares which expire October 15, 2011, at an exercise price of $1.00 per share (initially issued at $2.00 per share). The fair value of the warrants resulted in a discount on our convertible notes totaling $434,854 and we recorded $308,406 and $163,945 in interest expense related to the amortization of the discount during the years ended December 31, 2009 and 2010, respectively.

On January 16, 2009, the exercise price of the Fall 2008 One-Year Warrants was reduced from $1.00 to $0.75, and the exercise price of the Fall 2008 Three-Year Warrants was reduced from $2.00 to $1.00, resulting in additional fair value totaling $52,967, which was recorded as interest expense.

Spring 2008 Warrants

Pursuant to the terms of the Spring 2008 Warrants, we issued warrants to purchase up to an aggregate 1,353,550 shares of our common stock to purchasers of our Fall 2008 Notes, consisting of Spring 2008 One-Year Warrants to purchase an aggregate 676,775 shares which expired March 31, 2009, at an exercise price of $0.50 per share (initially issued at $1.00 per share), and Spring 2008 Three-Year Warrants to purchase up to an aggregate 676,775 shares which expire March 31, 2011, at an exercise price of $1.00 per share (initially issued at $1.50 per share). The fair value of

the warrants resulted in a discount on our convertible notes totaling $570,512 and we recorded $177,886 and $99,427 in interest expense related to the amortization of the discount during the years ended December 31, 2009 and 2010, respectively.

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Other Warrants

On February 5, 2010 we issued a warrant to a consultant for services provided to purchase up to an aggregate 50,000 shares of our common stock at an exercise price of $0.50 per share, resulting in a fair value of $25,000, which was recorded as selling, general and administrative expense. The warrant expires February 5, 2013.

On June 8, 2010 we issued a warrant to the holder of a note payable to purchase up to an aggregate 50,000 shares of our common stock at an exercise price of $0.50 per share, resulting in a fair value of $20,000, of which $20,000 was recorded as interest expense through December 31, 2010. The warrant expires June 8, 2013.

Note 9. 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, 2009 and December 31, 2010 there were no outstanding shares of our preferred stock.

Common Stock

As of December 31, 2009 and December 31, 2010 there were 43,196,355 and 51,782,619 shares of common stock outstanding, respectively. The increase in shares during the year ended December 31, 2010 is comprised of the following stock issuances: (i) 320,000 shares issued upon the exercise of an outstanding warrant, (ii) 3,425,011 shares issued to purchasers of our Summer 2010 PPM, (iii) 758,029 shares of our common stock as payment to consultants for services provided, (iv) 1,155,306 shares of our common stock as payment to two officers and our board of directors in exchange for accrued and unpaid obligation for their services, , (v) 454,546 shares of our common stock as payment for an accrued and unpaid obligation to a related party, New Millennium. (vi) 109,851 shares of our common stock as payment for accrued interest related to our 2009 Spring Notes, (vii) 268,019 shares of our common stock as payment for accrued interest related to our 2008 Spring Notes, (viii) 207,470 shares of our common stock as payment for accrued interest related to our 2008 Fall Notes (ix) 1,788,032 shares as payment of our 2007 Notes and related accrued interest, and (xi) 100,000 shares as payment of a portion of a note payable obligation.

Note 10. Stock-Based Compensation and Other Employee Benefit Plans

2007 Equity Incentive Plan

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

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During the year ended December 31, 2010, we granted options to purchase an aggregate 120,000 shares of our common stock to our Chief Financial Officer, pursuant to the terms of our engagement agreement with him. These options are exercisable at various exercise prices ranging between $0.24 and $0.50 depending upon their respective dates of grant, and resulted in an aggregate fair value of $45,400 and was recorded as selling, general and administrative expense as of December 31, 2010. Each option is fully vested upon grant and is exercisable for ten years from its respective date of grant.

During the year ended December 31, 2010, we granted options to purchase an aggregate 280,007 shares of our common stock to a senior advisor , pursuant to the terms of our engagement agreement with him. These options are exercisable at various exercise prices ranging between $0.22 and $0.40 depending upon their respective dates of grant, and resulted in an aggregate fair value of $92,911 and was recorded as selling, general and administrative expense as of December 31, 2010. Each option is fully vested upon grant and is exercisable for ten years from its respective date of grant.

On February 1, 2010, the Company’s Compensation Committee issued options pursuant to the Company’s 2007 Equity Incentive Plan to certain employees, outside consultants and professionals who have and continue to provide services to the Company, consistent with management’s recommendations to the committee.

In total, options to purchase an aggregate 860,000 shares of the Company’s common stock were issued, at an exercise price of $0.575 per share, which price was $0.075 more than the $0.50 closing price of the Company’s common stock on the date of grant. Of the options issued, 200,000 were issued to third party consultants for their respective roles within the Company and the remaining 660,000 options were issued to the Company’s principal executive officer, principal financial officer, and named executive officers, as set forth in the following table:

Name	Position	Number of Shares Underlying Options
Dennis P. Calvert	President and Chief Executive Officer	200,000
Charles K. Dargan II	Chief Financial Officer	60,000
Kenneth R. Code	Chief Technology Officer	200,000
Joseph L. Provenzano	Secretary, VP of Operations	200,000
	Total	660,000

With one exception, the options issued expire ten years from the date of grant (the option issued to Mr. Code expires five years from the date of grant).

On August 4, 2010, in an effort to preserve our cash and reduce outstanding payables, the Board offered to third parties, officers and board members the opportunity to convert outstanding payable amounts into common stock (“Stock”) or an option (“Option”) to purchase common stock in lieu of cash payment. The Stock would be converted at $0.30 per share, and Options may be exercised at $0.30 cents a share, and are issued pursuant to our 2007 Equity Incentive Plan, and expire five years from the date of issuance.

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We issued Options to purchase an aggregate 1,818,831 shares of our common stock in exchange for the settlement of accrued and unpaid obligations totaling $363,766. Of this amount we issued an option to an officer to purchase 496,203 shares of our common stock at $0.30 per share in lieu of $99,240 in unpaid salary obligations that were incurred in fiscal year 2009, an option to our board of directors to purchase 250,000 shares of our common stock at $0.33 per share in lieu of $50,000 in unpaid salary obligations that were incurred in fiscal year 2010, and an option to purchase an aggregate 1,072,628 shares of our common stock at $0.30 per share to some of our third party consultants in lieu of $214,526 of accrued and unpaid obligations.

Activity for our stock options under the 2007 Plan for the year ended December 31, 2010 is as follows:

	Options Outstanding	Shares Available	Price per share	Weighted Average Price per share
Balances, December 31, 2008	785,000	5,215,000	$ 0.35 – $1.89	$ 1.02
Granted	882,135	(882,135)	$ 0.28 – 0.70	$ 0.48
Exercised	—	—	—	—
Canceled	—	—	—	—
Balances, December 31, 2009	1,667,135	4,332,865	$ 0.28 – $1.89	$ 0.75
Granted	3,100,088	(3,100,088)	$ 0.23 – 0.50	$ 0.38
Exercised	—	—	—	—
Canceled	—	—	—	—
Balances, December 31, 2010	4,767,223	1,232,777	$ 0.23 – $1.89	$ 0.51

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The following table summarizes the stock options issued under the 2007 Equity Plan outstanding at December 31, 2010.

Options Outstanding at December 31, 2010	Exercise Price	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Currently Exercisable Number of Shares at December 31, 2010	Currently Exercisable Weighted Average Exercise Price
20,000	$0.40	7	$0.40	20,000	$0.40
605,000	$0.94 – 1.03	7	$0.97	105,000	$0.94
50,000	$1.89	7	$1.89	50,000	$1.89
110,000	$0.35 – 1.65	8	$1.04	110,000	$1.04
120,000	$0.28 - 0.50	8	$0.40	120,000	$0.40
20,000	$0.33	1	$0.33	20,000	$0.33
557,035	$0.50	2	$0.50	557,035	$0.50
155,100	$0.55	2	$0.55	155,100	$0.55
30,000	$0.57	9	$0.57	30,000	$0.57
30,000	$0.45 – 0.50	9	$0.48	30,000	$0.48
200,000	$0.50	9	$0.50	200,000	$0.50
660,000	$0.50	7	$0.50	600,000	$0.50
50,000	$0.25 – 0.40	9	$0.35	50,000	$0.35
1,820,081	$0.30	5	$0.30	1,820,081	$0.30
30,000	$0.24 - 0.35	10	$0.27	30,000	$0.27
280,007	$0.22 - .40	10	$0.32	280,007	$0.32
30,000	$0.40 – 0.50	10	$0.44	30,000	$0.44

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Stock Options Issued Outside the 2007 Equity Incentive Plan

Activity for our stock options outside the 2007 Equity Incentive Plan for the year ended December 31, 2010 is as follows:

	Options Outstanding	Price per share	Weighted Average Price per share
Balances, December 31, 2008	10,825,234	$0.18 – 0.99	$0.38
Granted	—	—	—
Exercised	—	—	—
Canceled	—	—	—
Balances, December 31, 2009	10,825,234	$0.18 – 0.99	$0.38
Granted	46,250	$0.30	$0.30
Exercised	—	—	—
Canceled	—	—	—
Balances, December 31, 2010	10,871,484	$0.38	$0.38

The following table summarizes the stock options issued outside of the 2007 Equity Incentive Plan outstanding at December 31, 2010.

Options Outstanding at December 31, 2010	Exercise Price	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Currently Exercisable Number of Shares at December 31, 2010	Currently Exercisable Weighted Average Exercise Price
7,733,259	$ 0.18	6	$ 0.18	7,733,259	$ 0.18
2,400,000	$ 0.99	2	$ 0.99	2,400,000	$ 0.99
691,975	$ 0.55	1	$ 0.55	691,975	$ 0.55
46,250	$ 0.30	5	$ 0.30	46,250	$ 0.30

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

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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 year ended December 31, 2010:

	2009		2010	
	Non plan Option	2007 Plan	Non plan Option	2007 Plan
Risk free interest rate	1.50 %	1.03 – 2.75 %	1.55 %	1.55 – 2.76 %
Expected volatility	482 %	482 - 766 %	724 %	915 %
Expected dividend yield	—	—	—	—
Forfeiture rate	—	—	—	—
Expected life in years	5	5	5	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.

Following the SEC guidance, we use the “shortcut” method to determine the expected term of plain vanilla options issued to employees and Directors. The expected term is presumed to be the mid-point between the vesting date and the end of the contractual term.

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

We recognize compensation expense for stock option awards on a straight-line basis over the applicable service period of the award, which is the vesting period. Share-based compensation expense is based on the grant date fair value estimated using the Black-Scholes Option Pricing Model. Historically, we have not had significant forfeitures of unvested stock options granted to employees and Directors. A significant number of our stock option grants are fully vested at issuance or have short vesting provisions. Therefore, we have estimated the forfeiture rate of our outstanding stock options as zero.

Note 11. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included the following:

	December 31, 2009	December 31, 2010
Accounts payable and accrued expenses	$ 479,034	$ 519,156
Accrued interest	462,129	164,694
Officer and board of director payable	331,865	26,569
Total Accounts Payable and Accrued Expenses	$ 1,273,028	$ 710,419

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During the year ended December 31, 2009 and 2010, we recorded $283,209 and $342,498, respectively, of interest expense related to our outstanding promissory notes.

During the year ended December 31, 2010, we converted an aggregate $639,933 of accrued and unpaid interest into shares of our common stock. (See Notes 6, 7 and 13).

During the year ended December 31, 2010, we converted an aggregate $423,536 of accrued and unpaid officer salary and unreimbursed expenses into shares of our common stock (see Note 7).

During the year ended December 31, 2010, we converted an aggregate $149,240 of accrued and unpaid officer and board of director salary and unreimbursed expenses. In exchange we issued stock option to purchase our common stock (see Note 10).

Note 12. Note Payable

On June 8, 2010, we received $100,000 and issued a promissory note with a maturity date of December 1, 2010, which accrued 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 and expire on June 3, 2013. (See Note 8.) On December 31, 2010, the maturity date was further extended to March 1, 2011. On March 1, 2011, we paid the remaining principal amount of $20,000, and $9,950 of accrued interest, in full satisfaction of the note.

On August 3, 2009, we received $70,000 and issued a promissory note with a maturity date of October 31, 2009 which accrued interest at a rate of 10%. On October 31, 2009 the maturity date of this promissory note was extended to February 1, 2010. The maturity date was further extended to December 1, 2010, and in March 2010 a $20,000 payment on the note was made. On December 31, 2010 we converted $30,000 principal balance into an aggregate 100,000 shares of our common stock at $0.30, and agreed to extend the maturity date to March 31, 2011. (See Note 15.)

For the year ended December 31, 2009 and 2010 we recorded $2,917 and $12,206 of interest expense related to these note payables.

Note 13. Related Party Transactions

New Millennium

On April 13, 2007, New Millennium Capital Partners LLC (“New Millennium”), a limited liability company controlled and owned in part by the Company’s CEO and president, Dennis P. Calvert, converted a promissory note (the “Note”) in principal amount of $900,000 into 1,636,364 shares of our common stock, at a price of $0.55 per share, which was the last bid price on the date of conversion. Accrued but unpaid interest in the amount of $380,658 as of the conversion date of April 13, 2007 remained outstanding on the Note, which amount was due to be paid on January 15, 2008. We did not make such payment on such date. On November 12, 2008, we and New Millennium agreed to extend the date on which interest would be paid to April 30, 2009. On April 27, 2009, New Millennium agreed to accept as payment of $230,658 of the outstanding $380,658 in accrued but unpaid interest an option to purchase 691,974 shares of our common stock, exercisable at $0.55 cents per share. This option will expire April 24, 2012. New Millennium further agreed to extend the due date for the remaining $150,000 unpaid interest, which, as discussed immediately below, has been paid.

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On August 4, 2010, we issued to New Millennium 454,546 shares of our common stock, at a conversion price of $0.33, as payment of the $150,000 accrued and unpaid interest.

The balance to the related party is $0 as of December 31, 2010.

Note 14. Commitments and Contingencies

Litigation

We are not currently a party to any litigation.

Engagement of Charles K. Dargan, II as Chief Financial Officer

On February 1, 2010, we extended the engagement agreement dated February 1, 2008 (the "Engagement Agreement", which had been previously extended by one year by agreement dated February 23, 2009), pursuant to which Mr. Dargan served as the Company's Chief Financial Officer for a period of two years, and which expired January 31, 2010. The extension agreement dated as of February 1, 2010 (the "Engagement Extension Agreement") provides for an additional one-year term January 31, 2011 (the "Extended Term"). During the Extended Term, Mr. Dargan will continue to receive a fee of $4,000 per month, which amount will be increased to $8,000 or more in months during which the Company files its periodic reports with the Securities and Exchange Commission.

In addition to the cash compensation specified above, Mr. Dargan will be issued stock options over the Extended Term. Each option will allow Mr. Dargan to purchase 10,000 shares of the Company's common stock, and will be granted on the last business day of each month commencing February 2010 and ending January 2011, provided that the Engagement Extension Agreement with Mr. Dargan has not been terminated prior to each such grant date, at an exercise price equal to the closing price of a share of the Company's common stock on each grant date, each such option to be fully vested upon grant.

Note 15. Provision for Income Taxes

At December 31, 2010 we had federal and California tax net operating loss carry-forwards of approximately $54.3 million and $46.3 million, respectively. The difference between federal and California tax loss carry-forwards is primarily due to limitations on California loss carry-forwards. Due to changes in our ownership through various common stock issuances during 2002 and 2007, the utilization of net operating loss carry-forwards may be subject to annual limitations under provisions of the Internal Revenue Code. Such limitations could result in the permanent loss of a portion of the net operating loss carry-forwards. Realization of our deferred tax assets, which relate to operating loss carry-forwards and timing differences, is dependent on future earnings. The timing and amount of future earnings are uncertain and therefore we have established a 100% valuation allowance.

Note 16. Subsequent Events

Management has evaluated subsequent events through the date of the filing of this Annual Report.

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Winter 2011 Offering

Pursuant to a private securities offering that began January 15, 2011 (the "Winter 2011 Offering") and continued through the date of this report, we received $419,020 from nineteen investors and issued 1,197,206 shares of our common stock at a price of $0.35 per share.

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.

Engagement of Charles K. Dargan, II as Chief Financial Officer

On March 22, 2011 we entered into an amended engagement agreement effective February 1, 2010 (the "Engagement Agreement"), pursuant to which Mr. Dargan served as the Company's Chief Financial Officer for a period of three years, and which expired January 31, 2011. The amended agreement provides for an additional one-year term through January 31, 2012 (the "Extended Term"). During the Extended Term, Mr. Dargan will continue to receive a quarterly fee of $16,000. In addition to the cash compensation, Mr. Dargan will be issued an option to purchase 100,000 shares of the Company's common stock at $0.41 per share. The option shall vest over a period of 10 months, with 10,000 shares vesting upon execution of this Engagement Agreement and has a ten year term, expiring March 22, 2021.

Conversion of Spring 2008 Notes

On March 31, 2011, per the terms of the Fall 2008 Notes, we elected to convert the remaining aggregate principal balance of $913,545 and $76,051 of accrued and unpaid interest into an aggregate 733,108 shares of our common stock.

Stock Option Issuances

On March 17, 2011, the Company's Compensation Committee issued options pursuant to the Company's 2007 Equity Incentive Plan to certain officers, directors, outside consultants and professionals who have and continue to provide services to the Company, consistent with management's recommendations to the committee.

In total, options to purchase an aggregate 932,470 shares of the Company's common stock were issued, at an exercise price of $0.41 per share, which price was the closing price of the Company's common stock on the date of grant. All were issued for their respective roles within the Company and services provided by the issuees.

Common Stock Issuances

On March 17, 2011, the Company's Compensation Committee issued 400,000 shares of the Company's common stock. Of this share issuance, 200,000 were issued to the Chief Executive Officer and the remaining 200,000 were issued to our Chief Technical Officer.

Agreement with Central Garden & Pet

On March 24, 2011, BioLargo, Inc., and its wholly owned subsidiaries BioLargo Life Technologies, Inc., and Odor-No-More, Inc. (collectively, the "Company") and Central Garden & Pet Company ("Central"), entered into a contract in which Central was granted the exclusive worldwide right and license to sell, market, offer for sale,

distribute import, export, and otherwise exploit products that contain the BioLargo technologies in the “pet supplies industry” (which is defined in the agreement, and does not include products for equine or livestock). The Company is the exclusive provider of the product containing the BioLargo technologies, other than in certain limited conditions. The rights granted to Central are exclusive so long as Central meets “minimum purchase requirements” of product from the Company, as set forth in the agreement. The agreement terminates only upon uncured breach of material warranty or obligation.

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On March 24, 2011, Central paid to the Company $100,000 which will be credited against future orders. The Company has agreed to sell product to Central at a price equal to the manufacturing cost plus a “manufacturer’s margin”, in an amount to be agreed upon by the parties for each particular product. Central agreed to include a BioLargo trademark on the packaging of any products containing the BioLargo technologies.

Central shall have a right of first refusal to purchase Odor-No-More, Inc., or the Odor-No-More brand and/or intellectual property. The Company shall give notice of receipt of any offer to purchase, and Central may elect to match the terms of the offer. Central also has the right of first offer to acquire the right to commercialize new products based on BioLargo technologies in the “pet supplies industry”, following notice from the Company and a 90 day due diligence period. If Central declines to commercialize any such new product, the Company is free to commercialize such products under its own brand, but not under a third party’s brand.

The agreement also contains standard provisions typical of a license and supply agreement.