BIOLARGO, INC.
Form 10-K
April 06, 2012

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, 2011

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.)
16150 Heron 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. Yes ¨ No x

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 aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2011 was approximately $11,257,188 which is based on 28,142,969 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 shares outstanding of the issuer's class of common equity as of April 4, 2012 was 60,699,517.

Information required by Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K are incorporated by reference from the Registrant's Proxy Statement for its annual meeting to be held June 1, 2012.

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PART I

ITEM 1. BUSINESS

USE OF FORWARD LOOKING STATEMENTS IN THIS REPORT

This annual report on Form 10-K for the year ended December 31, 2011 (the “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, 2011, 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.

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Our BioLargo technology delivers “Nature’s Best Solution®” – iodine – to an array of problems, including odor and moisture control, disinfection, wound healing 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 only one area -- the animal health industry, under the brand name “Odor-No-More”. In March 2011, we 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 key industry experts to our team, we are also actively seeking opportunities for product sales or licensing in the oil and gas industry, the food processing industry, and the medical products industry. These five areas – Odor-No-More, Central Garden & Pet, oil and gas, food processing, and medical products, 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 CupriDyne® technology), or a controlled dose in either the CupriDyne® technology of Isan system and when used in absorbent products, the CupriDyne® 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.

- Non-Staining—Unlike the iodine solutions used in medicine and sold in stores, our tests show that our BioLargo technology does not stain or chemically discolor surfaces on contact.

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

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- 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. In 2011, we added to our team chemist and oil and gas specialist Richard D. Bickerstaff, PhD, to assist in the oil and gas efforts.

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.

In December 2011 we announced that we had been selected as a founding member of a Canadian Natural Sciences and Engineering Research Council ("NSERC") "research chair", joined by globally leading oil companies, the regional water district in Alberta Canada and the University of Alberta. The Chair was formed to solve the contaminated water and tailings ponds problems associated with the oil sands industry and commenced in December of last year. The Canadian Oil Sands are the second largest deposit of oil in the world. Extracting oil from the Oil Sands creates high volumes of contaminated water (between 2 and 4.5 barrels of water to produce one barrel of synthetic crude oil), currently discharged in "tailings" ponds, sometimes for years, to separate the solids from the liquids for eventual recycling or safe discharge into the environment. With Canadian oil production estimated to increase from 1.9 million to over 6 million barrels of oil a day over the next 20 years, the released water from oil sands operations is estimated to reach one billion cubic meters in the Athabasca oils sands region by 2025. An innovative solution that can reduce the water treatment time, and thus the overall footprint and environmental impact of the tailings ponds, is required for Canada to meet its production goals. It is widely believed that the future of oil sands exploration, its social and economic contribution as the second largest oil reserve in the world, and its contribution to the public good of both Canada and the Unites States, hinges on industry's ability to manage the wastewater in tailings ponds.

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While our work with the research chair continues, we will also work to advance our intellectual property and proof of claims within the oil and gas industry, which will also help advance our commercial goals to secure strategic partners, pilot projects, supply chain/ engineering partners and customers. We believe our BioLargo Technology will aid in the isolation, elimination, containment and/or treatment of a host of contaminates that require management within processes, wastewater, produced water, down-hole treatments, hydraulic fracturing, and oil sands tailings ponds.

Food Processing Industry

In February 2011, we added to our team former Pepsi-Cola International VP of Technical Services, and recognized industry water treatment expert, 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 developing new patents and other intellectual property, advancing proof of claim, pilot projects and seeking customers and/or licensing partners. These efforts will continue in 2012.

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 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.

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.

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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. In most operating environments, we help reduce the overall cost of stall maintenance through the use of our products.

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, 2010 and 2011, we incurred $34,493 and $67,087 of advertising expense, including costs associated with print advertising, trade shows, equestrian events, local fairs, horse and livestock shows, online marketing, 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 distributors 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.

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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. We intend to commence commercial trials for new product formulations in 2012.

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 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 Horn

We have entered into a non-exclusive master distributor agreement with Horn (formerly the E.T. Horn Company, www.ethorn.com), which is headquartered in La Mirada, California. From time to time, Horn purchases inventory from us, and then makes the purchased inventory available to us for re-sale to our other distributors or customers. Our relationship with 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 also sublease our corporate office space on the 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 Horn should continue to be mutually beneficial for both parties, and therefore expect it to continue indefinitely, 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.

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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," Horn, as well as alternative manufacturing facilities in other parts of the United States. Through Horn, we warehouse product in locations across the United States to better serve our customers, and primarily utilize the Horn 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.

Although we continue to work with Central on incorporating our technology into their product brands, as of December 31, 2011, Central had not purchased products or supplies from us, and had not launched any products incorporating our technology. Based on continual feedback and extensive product development work as well as product testing and various third party validation work accomplished with the participation of Central Garden and our manufacturing/distribution partner Horn, as well as feedback and ongoing planning around the products being contemplated, we believe that Central will launch a series of products that utilize the BioLargo technology.

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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.

On March 26, 2010, we sublicensed the Isan System (the “Ioteq Sublicense Agreement”), to use, exploit, develop and commercialize certain technology, including patented and proprietary technologies in the United States, Canada and Mexico, in any field of use. Lacking funding necessary to proceed with commercialization, on October 3, 2011, we and the licensee mutually terminated the Ioteq SubLicense agreement.

In a separate transaction, we executed a joint venture agreement with Peter Holdings Ltd., the principal funding source of the development of the Isan system, whereby, as a result of the transaction, we jointly purchased the intellectual property associated with the Isan system. We are continuing our efforts to market and find a potential industry partner/licensee for the Isan technology. We have chosen to focus on targeting global food and beverage companies involved in developing sustainable water treatment practices for industry and for agricultural uses as potential customers or strategic partners in developing a practical pathway to commercial endeavors. Discussions are ongoing with a number of key industry members.

Research and Development

Our Chief Technology Officer, Mr. Kenneth R. 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.

In 2010 and 2011, we continued with the research and development of our technology and products based on our technology. During that time, we filed seven patent applications, including provisional applications, each comprised of multiple individual claims, and were granted three patents by the USPTO.

During 2012 we plan to continue to advance our proof of claims, inventions and patent filings.

We spent $100,564 in 2010 and $99,495 in 2011 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.

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Manufacturing

We do not presently intend to manufacture our 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 Horn, 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 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.

Horn 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 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.

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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 continue to identify technology improvements and additional patent opportunities that expand on and enhance the original patents issued to our Chief Technology officer and acquired in 2007. 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 Labs, the University of Hawaii, the Department of Environmental Engineering at UCLA, Oregon State University, and the University of Alberta, Canada.

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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 were 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.

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.

- United States patent 7,943,158, dated May 17, 2011, titled "Absorbent systems providing antimicrobial activity", relating to the reduction of microbial content by providing molecular iodine to stabilized reagents.

- United States patent 8,021,610, dated September 20, 2011, titled "System providing antimicrobial activity to an environment", relating to the reduction of microbial content in a land mass.

Pending Patent Applications

- 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. We recently received a Notice of Allowance for this application with a patent to issue in 2012.

- 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.

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

- PCT/US Patent Application (filed January 10, 2011), divisional of USPTO patent application 12/516,960 and its associated claims.

- USPTO Patent Application 13/116,775 (filed May 26, 2011), relating to the moderation of oil extraction waste environments.

- USPTO Patent Application 13/116,816 (filed May 26, 2011), relating to the moderation of animal environments.

- PCT/US Patent Application claiming priority from USPTO provisional application 61//369/836 filed June 2, 2010 and 61//378/227 filed August 30, 2010.

In addition to these applications, we have filed patent applications in multiple foreign countries, including the European Union, pursuant to the PCT, and other provisional applications. 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 under the laws of the State of Florida in 1989, and in 1991 merged into a Delaware corporation. Since January 23, 2008, our common stock has been quoted on the OTC Bulletin Board under the trading symbol “BLGO”.

In January 2006, we formed BioLargo Life Technologies, Inc., as a wholly owned subsidiary, to hold our intellectual property. In January 2010, we began operating Odor-No-More, Inc., as a wholly owned subsidiary, to manufacture, market, sell and distribute our Odor-No-More product line.

Our offices are located on the campus of Horn (formerly the E.T. Horn Company) in La Mirada, California, adjacent to their manufacturing facility and corporate offices. We have recently moved into new office space on their campus, located at 16150 Heron Avenue, La Mirada. 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 Annual Report.

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Executive Officers

As of December 31, 2011 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, 2011, we employed three full-time employees. We also hire, on an as needed basis, consultants who provide certain specified services to us.

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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 in continuing operations for the years ended December 31, 2011 and 2010 was $1,716,324 and $1,296,556, respectively. These negative cash flows are primarily related to operating losses and, to a lesser extent, fluctuations in working capital items. We continued to use cash in 2011 as it became available and we anticipate that we will require significant additional financing for working capital requirements 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.

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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 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 holders 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 distribution agreement with Central Garden & Pet discussed below. 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, should any of these opportunities result in definitive agreements being entered into, we may be required 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.

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The cost of maintaining our public company reporting obligations is high.

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 commercialization. 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 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 limited 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 of our Odor-No-More brand 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 and may fail.

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.

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

In March 2011, we entered into a license and supply agreement with Central Garden & Pet Company, one of 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, have been engaged in related product development activities since the inception of the agreement, and Central’s management continues to indicate that it intends to launch products that will include BioLargo’s technology, 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 until March 2013, absent their consent, to enter into a similar agreement with a third party for sales in the “pet supplies industry”. The agreement also provides Central 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. Central is not required to commercialize any new BioLargo product or technology, and there can be no assurance they will choose to do so. If Central declines to commercialize any such new product or technology, we are free to commercialize such products in the “pet supplies industry” under our own brand, but not under a third party’s brand. If Central were to "opt out" on any specific product, there can be no assurance that we would be able to generate meaningful revenues or otherwise successfully commercialize such products or technology.

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 Horn for portions of our operational infrastructure.

We rely on Horn (www.ethorn.com, formerly the E.T. Horn Company) for distribution logistics for our products, and we sublease office space from them for our corporate office. Horn was founded in the early 1960’s, and its corporate office and blending facilities are located in La Mirada, California. With over 200,000 square feet of office and industrial space in La Mirada, and eleven other locations across the United States, Horn distributes raw materials and products nationwide. We rely on 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 Horn 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 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 Horn in a timely manner, or that we would have the financial and human resources to create a similar distribution system.

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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 own jointly with 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.

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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.

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We expect our operating expenses will continue to fluctuate significantly in 2012 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, although management is evaluating the potential of securing this type of insurance in the future as may be available.

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.

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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.

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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 thus we are unable to file for patent protection in many countries.

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 International Patent Cooperation Treaty ("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.

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

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. Should the volume of our sales increase dramatically, we may have difficulty obtaining SAP beads or other raw materials at a favorable price. 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, and prior to his involvement with our company, our CTO Mr. Code previously assigned the two patents registered with the United States Patent and Trademark Office ("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 that such parties have no rights to any part of our BioLargo technology. Although the USPTO officially recognizes BioLargo as the owner of record of the two patents, more than 10 years has transpired since Mr. Code originally agreed to assign the two patents, and the third party has yet to threaten action, or to make a claim to the patents, such parties, or their successors or assigns, could make claims of rights of ownership to all or some portion of our BioLargo technology. In mitigation of any potential claim, we have filed numerous new patents applications, been granted multiple additional patents, and developed new intellectual property, including trade secrets, know how, and other proprietary information, all of which management believes is not related to the original patents, and, has acquired an equal ownership of certain intellectual property which is not related to the original patents that relate to the Isan system. However, despite all of these factors, in the event of a legal dispute, a lengthy and costly legal defense would be required to defend against any such claims, and notwithstanding our position in these potential disputes, we 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 led to a significant decline in the frequency of trades and trading volume. Continued trading on the OTCBB will also likely adversely affect our ability to obtain financing in the future due to the decreased liquidity of the our shares and other restrictions that certain investors have for investing in OTCBB traded securities. While we intend 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 our common stock will be listed on Nasdaq or another stock exchange.

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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.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our offices are located at 16150 Heron Avenue, La Mirada, California 90638. We sublease our office space from Horn, our distribution partner.

ITEM 3. LEGAL PROCEEDINGS

As of December 31, 2011, there were no litigation proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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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".

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.

	2010		2011	
	High	Low	High	Low
First Quarter	$ 0.70	$ 0.35	$ 0.57	$ 0.35
Second Quarter	$ 0.50	$ 0.25	$ 0.51	$ 0.29
Third Quarter	$ 0.40	$ 0.15	$ 0.45	$ 0.34
Fourth Quarter	$ 0.55	$ 0.35	$ 0.38	$ 0.22

The closing bid price for our common stock on April 4, 2012, was $0.30 per share. As of such date, there were approximately 609 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	7,739,258	$ 0.42	4,260,742(1)
Equity compensation plans not approved by security holders	0	0	0
Total	7,739,258	$ 0.42	4,260,742

(1) This amount remains out of 12,000,000 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, and amended by our stockholders in 2011. Upon

the adoption of the 2007 Plan, a prior plan approved in 2004 was frozen and no further grants will be made under that plan.

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Sales of Unregistered Securities

The following is a report of the sales of unregistered securities in the three-month period ended December 31, 2011 and those otherwise not previously reported in a Quarterly Report on Form 10-Q or in a Current Report on Form 8-K.

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 were due and payable October 15, 2011, to 18 investors, convertible into an aggregate 1,446,000 shares of our common stock, at a conversion price of $0.50 per share. On October 15, 2011, per the terms of the Fall 2008 Notes, we elected to convert the remaining aggregate principal balance of $723,000 and $72,300 of accrued and unpaid interest into an aggregate 1,590,600 shares of our common stock.

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.

On July 19, 2011, we issued an aggregate 177,673 shares of common stock to holders of the Spring 2009 Notes in payment of $78,916 of aggregate annual interest due on the notes.

Fall 2011 Offering

Pursuant to a private offering of our common stock at a price of $0.35 per share that commenced September 2011 (the “Fall 2011 Offering”), we received subscriptions from 16 accredited investors for the purchase of 1,336,299 shares of our common stock at $0.35 per share. In the year ended December 31 2011, we received $370,723 gross proceeds and issued 1,059,215 shares of our common stock. The remaining $96,979 was received subsequent to December 31, 2011.

Each purchaser of stock in the Fall 2011 Offering received, for no additional consideration, a stock purchase warrant (the “Fall 2011 Warrant”) entitling the holder to purchase the same number of shares of common stock for $0.50 per share until December 31, 2012.

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Payment of Consultant Fees

On December 23, 2011, we issued an aggregate 13,084 shares of our common stock, at a conversion price of $0.30, in lieu of $3,925 of fees related to consultants. This entire amount related to services performed in 2011.

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 OPERATIONS

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, 2011 unless expressly stated otherwise, and we undertake no duty to update this information.

Results of Operations—Comparison of the years ended December 31, 2011 and 2010

Revenue

We generated $156,189 in revenue during the year ended December 31, 2011, compared with $156,761 in revenue during the year ended December 31, 2010. Of these amounts, $115,500 and $7,500, respectively, are comprised of the recognition of deferred revenue related to the Isan USA license transaction. See Note 4 to our Consolidated Financial Statements for further information regarding this transaction.

With the evolution of the relationship with our master distribution partner Horn such that Horn is purchasing product from us and stocking inventory that we may draw on to make sales to our other customers, in 2011 we began categorizing product sales to Horn as "deferred revenue" on our Balance Sheet. Once sales are made to other distributors, retailers, or consumers, by either Horn, or us, such amounts are included product revenue on our Income Statement. The decrease in 2011 as compared with 2010 is related in part to this change, and in part to the focus of our efforts on product development and sales and licensing in other areas.

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Cost of Goods Sold

Our cost of goods sold during 2011 was $44,756 or 110% of product revenues, as compared with $125,484 in 2010, or 84% of 2010 revenues. Our cost of goods sold includes costs of raw materials, contract manufacturing, and portions of salaries related to the product development and manufacturing. Because we have not achieved a large or consistent revenue base, the inclusion of the fixed costs related to the product development and manufacturing increases our cost of goods disproportionately, resulting in higher fluctuations than we anticipate in future years. The difference in the percentage in 2011 versus 2010 is due to such fluctuations.

Selling, General and Administrative Expense

Selling, General and Administrative expenses were $3,165,201 for the year ended December 31, 2011, compared to $4,119,728 for the year ended December 31, 2010, a decrease of $954,527. The largest components of these expenses were:

a. Salaries and Payroll-related Expenses: These expenses were $1,072,242 for the year ended December 31, 2011, compared to $1,562,212 for the year ended December 31, 2010, a decrease of $489,970. The decrease is primarily attributable to the completion in 2010 of a vesting period for an option, resulting in a non-cash stock option compensation expense in 2010, but no such expense for that option in 2011.

b. Consulting Expenses: These expenses were $841,086 for the year ended December 31, 2011, compared to $1,417,915 for the year ended December 31, 2010, a decrease of $576,829, respectively. The decrease is primarily attributable to the completion in 2010 of a vesting period for options issued to two consultants, resulting in a non-cash stock option compensation expense in 2010, but no such expense for that option in 2011.

c. Professional Fees: These expenses were $461,662 for the year ended December 31, 2011, compared to $304,893 for the year ended December 31, 2010, an increase of $156,769. This increase is primarily due to increased legal fees and additional expense recorded in connection with issuing options to convert obligations.

Research and Development

Research and development expenses were essentially the same in the years ended December 31, 2011 and 2010. The decrease of $1,069 from 2010 to 2011 is nominal and does not indicate any decrease in research and development activities.

Interest expense

Interest expense totaled $793,259 for the year ended December 31, 2011, compared to $1,667,555 for the year ended December 31, 2010, a decrease of $874,296. The decrease is due in part to the full payment of outstanding convertible notes issued in our Spring 2007 offering, Spring 2008 offering, and Fall 2008 offering. The decrease is also due to less amortization expense related to the fair value of the warrants issued in connection with our convertible debt.

Net Loss

Net loss for the year ended December 31, 2011 was $3,954,389, a loss of $0.07 per share, compared to a net loss for the year ended December 31, 2010 of $5,742,341, a loss of $0.13 per share. The decrease in net loss for the year ended December 31, 2011 is primarily attributable to the reduction in Selling, General and Administrative expenses, and the reduction of interest expense.

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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, such as with Central Garden and Pet, we expect to continue to have operating losses. Cash and cash equivalents totaled $128,498 at December 31, 2011. We had negative working capital of $1,171,508 as of December 31, 2011, compared with negative working capital of $1,935,767 as of December 31, 2010. We had negative cash flow from operating activities of $1,716,324 for the year ended December 31, 2011, compared to a negative cash flow from operating activities of $1,296,556 for the year ended December 31, 2010. We used cash from financing activities to fund operations. Our cash position is insufficient to meet our continuing anticipated expenses or fund anticipated operating expenses. Accordingly, we will be required to raise significant additional capital to sustain operations and further implement our business plan and we may be compelled to reduce or curtail certain activities to preserve cash. See Note 1 for a discussion of the presentation and preparation of the financial statements on a going concern basis.

Since we continue to be limited in terms of our capital resources, we are continuing to raise investment funds through private securities offerings. During the year ended December 31, 2011, we received gross of $1,443,493 pursuant to our private securities offerings. We will be required to raise substantial additional capital to continue our current operations, as well as to meet our liabilities as they become due, if our efforts to commercialize our technology do not generate cash flow in the near future. We will be required to raise substantial additional capital to fully carry out our business plans, 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. We may also be compelled to reduce or curtail certain activities to preserve cash. 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.

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.

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.

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Revenue Recognition

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

Valuation of Intangibles and Investments

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.

Share-based Payments

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 May 2011, the Financial Accounting Standards Board, or FASB, issued ASU No. 2011-04, “Fair Value Measurement” to amend the accounting and disclosure requirements on fair value measurements. This ASU limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts. Additionally, this update expands the disclosure on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. ASU No. 2011-04 is to be applied prospectively and is effective during interim and annual periods beginning after December 15, 2011. We do not expect the adoption of this guidance to have a material effect on our consolidated financial statements.

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In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income". This ASU presents an entity with the option to present the total of comprehensive income, the components of net income, and the component of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity/deficit. The amendments in this update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU No. 2011-05 should be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. As ASU No. 2011-05 relates only to the presentation of Comprehensive Income, we do not expect the adoption of this guidance to have a material effect on our 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, 2010 and 2011 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

None.

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.

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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, 2011.

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, 2011 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 Proxy Statement to be filed with the SEC in connection with the solicitation of proxies for our 2012 Annual Meeting of Stockholders, currently scheduled to be held on June 1, 2012 (the “Proxy 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 Proxy Statement. Item 405 of Regulation S-K 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 Proxy 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 Proxy 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 Proxy 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 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING 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 Proxy Statement.

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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.

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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	Form of Convertible Promissory Note issued in the Spring 2008 Offering (10)
4.2	Form of Three-Year Warrant issued in the Spring 2008 Offering (10)
4.3	Form of Warrant to Purchase Common Stock issued to SC Capital Partners, LLC (10)
4.4	Form of Convertible Promissory Note issued in the Fall 2008 Offering (12)
4.5	Form of Three-Year Warrant issued in the Fall 2008 Offering (12)
4.6	Amended Form of Convertible Promissory Note issued in the Spring 2008 Offering (12)
4.7	Amended Form of One-Year Warrant issued in the Spring 2008 Offering (12)
4.8	Amended Form of Three-Year Warrant issued in the Spring 2008 Offering (12)
4.9	Form of Convertible Promissory Note issued in the Spring 2009 Offering (15)
4.10	Form of Three-Year Warrant issued in the Spring 2009 Offering (15)
4.11	Promissory Note (Masteller) (15)
4.12	Form of Convertible Promissory Note issued in the Spring 2010 Offering (16)
4.13	Form of Eighteen Month Warrant issued in the Spring 2010 Offering (16)
4.14	Form of Thirty-Six Month Warrant issued in the Spring 2010 Offering (16)
4.15*	Form of Warrant issued in the Fall 2011 Offering
4.16*	Form of Warrant issued in the Winter 2012 Offering
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	Amendment No. 1 to BioLargo 2007 Equity Incentive Plan (19)
10.5†	Employment Agreement dated as of January 1, 2008 between BioLargo, Inc. and Joseph L. Provenzano (6)
10.6	Consulting Agreement dated as of January 1, 2008 between BioLargo, Inc. and Jeffrey C. Wallace (6)
10.7	Consulting Agreement dated as of January 1, 2008 between BioLargo, Inc. and Robert C. Szolomayer (6)
10.8†	Engagement Agreement dated February 1, 2008 between BioLargo, Inc. and Charles K. Dargan, II (7)
10.9	Consulting Agreement dated as of November 6, 2008 between BioLargo, Inc. and Howard Isaacs (9)
10.10	Engagement Extension Agreement dated as of February 1, 2010 between BioLargo, Inc. and Charles K. Dargan, II. (13)
10.11	Engagement Extension Agreement dated as of February 1, 2011 between BioLargo, Inc. and Charles K. Dargan, II. (17)
10.12	Sublicense Agreement by and between Ioteq Inc., a Delaware corporation, and BioLargo, Inc. (15)
10.13	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)
10.14	Sublicense Agreement by and between BioLargo, Inc., and Isan USA, Inc. (14)

10.15	Agency Agreement by and between BioLargo, Inc., and Isan USA, Inc. (14)
10.16	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 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.
101.INS**	XBRL Instance
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation
101.DEF**	XBRL Taxonomy Extension Definition
101.LAB**	XBRL Taxonomy Extension Labels
101.PRE**	XBRL Taxonomy Extension Presentation

*	Filed herewith.
**	XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.
†	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.

(19) Incorporated herein by reference from the Def 14C filed by the Company on May 2, 2011.

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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 5, 2012	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 5, 2012
/s/ Charles K. Dargan II Charles K. Dargan II	Chief Financial Officer (principal financial officer and principal accounting officer)	April 5, 2012
/s/ Kenneth R. Code Kenneth R. Code	Chief Technology Officer and Director	April 5, 2012
/s/ Joseph L. Provenzano Joseph L. Provenzano	Executive Vice President, Corporate Secretary and Director	April 5, 2012
/s/ Gary A. Cox Gary A. Cox	Director	April 5, 2012
/s/ Dennis E. Marshall	Director	April 5, 2012

Dennis E. Marshall		
/s/ Kent C. Roberts II Kent C. Roberts II	Director	April 5, 2012
/s/ John S. Runyan John S. Runyan	Director	April 5, 2012

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
BioLargo, Inc.

We have audited the accompanying consolidated balance sheets of BioLargo, Inc. (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years ended December 31, 2011 and 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 audits.

We conducted our audits 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 audits provide 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, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the years ended December 31, 2011 and 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.

HASKELL & WHITE LLP

April 5, 2012

Irvine, California

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BIOLARGO, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2010 AND DECEMBER 31, 2011

	December 31, 2010	December 31, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$425,069	$ 128,498
Accounts receivable, net of allowance	16,216	10,476
Inventory	7,813	61,865
Prepaid expenses	3,815	1,346
Total current assets	452,913	202,185
FIXED ASSETS		
Equipment, net	6,826	2,700
OTHER ASSETS		
Deposit	—	41,502
TOTAL ASSETS	$459,739	$246,387
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$710,419	$706,688
Convertible notes payable, current portion	1,636,625	670,410
Discount on convertible notes, current portion net of amortization	(211,364)	(255,914)
Note payable	120,000	100,000
Deferred revenue	115,500	52,509
Customer deposit	17,500	100,000
Total Current Liabilities	2,388,680	1,373,693
LONG-TERM LIABILITIES		
Convertible notes payable, net of current portion	1,120,185	438,775
Discount on convertible notes, net of current portion and amortization	(456,243)	(48,484)
Total Long-term Liabilities	663,942	390,291
TOTAL LIABILITIES	3,052,622	1,763,984
COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS (Notes 11, 12 and 14)		
STOCKHOLDERS' EQUITY (DEFICIT)		
Convertible Preferred Series A, $.00067 Par Value, 50,000,000 Shares Authorized, -0- Shares Issued and Outstanding, at December 31, 2010 and December 31, 2011.	—	—

Common Stock, $.00067 Par Value, 200,000,000 Shares Authorized, 51,782,619 and 59,242,220 Shares Issued, at December 31, 2010 and December 31, 2011.	34,734	39,737
Additional Paid-In Capital	60,883,288	65,907,960
Accumulated Deficit	(63,510,905)	(67,465,294)
Total Stockholders' Equity (Deficit)	(2,592,883)	(1,517,597)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 459,739	$ 246,387

See accompanying notes to consolidated financial statements

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BIOLARGO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2011

	2010	2011
Revenue		
License fee	$7,500	$115,500
Product	149,261	40,689
Total revenue	156,761	156,189
Cost of goods sold	125,484	44,756
Gross Margin	31,277	111,433
Costs and expenses		
Selling, general and administrative	4,119,728	3,165,202
Research and development	100,564	99,495
Amortization and depreciation	9,564	7,866
Total costs and expenses	4,229,856	3,272,563
Loss from operations	(4,198,579)	(3,161,130)
Interest expense	(1,667,555)	(793,259)
Other Income	123,793	—
Net other expense	(1,543,762)	(793,259)
Net loss	$(5,742,341)	$(3,954,389)
Loss per common share – basic and diluted		
Loss per share	$(0.13)	$(0.07)
Weighted average common share equivalents outstanding	45,818,844	55,714,686

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 30, 2010 AND 2011

	Common Stock				
	Number of Shares	Par Value $.00067	Additional Paid-In Capital	Accumulated Deficit	Total
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 Spring 2008 Notes	268,019	196	91,585	—	91,781
Conversion of 2008 Fall Offering of convertible notes and related accrued interest obligation	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 for the 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)
Issuance of stock for cash received in Winter 2011 PPM	2,765,070		1,872		965,896		—		967,768
Conversion of the 2008 Fall Notes and accrued interest obligations	1,590,600		1,066		794,234		—		795,300
Conversion of the 2008 Spring Notes and accrued interest obligations	733,108		492		989,184		—		989,676
Conversion of a Spring 2009 Note and accrued interest obligation	21,754		15		11,949		—		11,964
Conversion of the accrued interest related to the Spring 2009 Notes	155,919		74		66,967		—		67,041
Conversion of the accrued interest related to the Spring 2010 Notes	100,092		76		46,910		—		46,986
Issuance of stock for cash received in Summer 2010 PPM	350,000		236		104,764		—		105,000
Issuance of stock for cash received in Fall 2011 PPM	1,059,215		715		370,008		—		370,723
Issuance of stock for services to consultants	93,599		61		45,801		—		45,862
Issuance of stock for services to Officers	590,244		396		241,602		—		241,998
Issuance of stock options to consultants	—		—		717,989		—		717,989
Issuance of warrants to consultants	—		—		100,950		—		100,950
Issuance of stock options to officer and Board of directors	—		—		333,080		—		333,080
Fair value of warrant extension	—		—		235,338		—		235,338
Net loss for the year ended December 31, 2011	—		—		—		(3,954,389)		(3,954,389)
BALANCE DECEMBER 31, 2011	59,242,220	$	39,737	$	65,907,960	$	(67,465,294)	$	(1,517,597)

See accompanying notes to consolidated financial statements

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BIOLARGO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2010 AND 2011

	2010	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$(5,742,341)	$(3,954,389)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Non-cash interest expense related to the amortization of the fair value of warrants issued in conjunction with our convertible notes	1,325,057	600,470
Non-cash accrued option compensation expense	1,068,591	—
Non-cash expense related to options issued to officers and board of directors	455,786	268,705
Non-cash expense related to stock issued to our board of directors for settlement of obligations	135,457	163,998
Non-cash expense related to options issued to consultants	317,949	714,160
Non-cash expense related to stock issued to consultants	340,219	45,862
Amortization and depreciation expense	9,564	7,866
Increase (decrease) in cash from change in:		
Accounts receivable	(1,609)	5,740
Inventory	1,865	(54,502)
Prepaid expenses	771	2,469
Other assets	—	(41,502)
Accounts payable and accrued expenses	659,135	504,840
Deferred revenue	115,500	(62,991)
Customer deposits	17,500	82,500
Net Cash Used In Operating Activities	(1,296,556)	(1,716,324)
CASH FLOWS FROM INVESTING ACTIVITIES		
Funds used to purchase equipment	—	(3,740)
Net Cash Used In Investing Activities	—	(3,740)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the sale of stock	1,027,500	1,443,493
Proceeds from convertible notes	438,775	—
Proceeds from note payable	100,000	—
Proceeds from exercise of warrant	40,000	—
Payments on note payable	(20,000)	(20,000)
Net Cash Provided By Financing Activities	1,586,275	1,423,493
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	289,719	(296,571)
CASH AND CASH EQUIVALENTS — BEGINNING	135,350	425,069
CASH AND CASH EQUIVALENTS — ENDING	$425,069	$128,498
SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION		
Cash Paid During the Period for:		
Interest	$—	$—
Taxes	$3,000	$4,868

SUPPLEMENTAL DISCLOSURES OF NON-CASH OPERATING ACTIVITIES:		
Conversion of accrued expenses to shares of the Company's common stock:		
Related party obligations – New Millennium	$150,000	—
Board of Directors and officer obligations	$363,536	—
Consultant obligations	$157,312	$78,000
Option or warrant issued to purchase shares of the Company's common stock:		
Consultant obligations	$234,246	$279,339
Board of Directors and officer obligations	$149,240	$163,998
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Conversion of Noteholders to shares of the Company's Common stock:		
Conversion of the 2007 Notes convertible note payable obligations	$968,000	$—
Convertible Noteholders accrued and unpaid interest	$489,514	$263,342
Conversion of a portion of a note payable	$30,000	$—
Conversion of the 2008 Spring Notes and related accrued interest	$—	$989,676
Conversion of the 2008 Fall Notes and related accrued interest	$—	$795,300
Fair value of warrants issued:		
Fair value of the issuance of warrants in conjunction with convertible note offerings	$430,327	$—
Issuance of warrants in conjunction with note payable	$20,000	$—
Issuance of a warrant to a consultant for services provided	$25,000	$—
Fair value of warrants in conjunction with a convertible note offering repricing in 2010 and extension in 2011	$277,992	$235,338

See accompanying notes to consolidated financial statements

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Note 1. Business and Organization

Outlook

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of our business. As reflected in the accompanying financial statements, we had a net loss of $3,954,389 for the year ended December 31, 2011, and at December 31, 2011, we had negative working capital of $1,171,508, current assets of $202,185, and an accumulated stockholders' deficit of $67,465,294. 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 were $128,498 at December 31, 2011. We generated revenues of $156,189 in the year ended December 31, 2011, which amount was not sufficient to fund our operations. We generally have not had enough cash or sources of capital to pay our accounts payable and expenses as they arise, and have relied on the issuance of stock options and common stock, as well as extended payment terms with our vendors, to continue to operate. We will be required to raise substantial additional capital to expand our operations, including without limitation, hiring additional personnel, additional scientific and third-party testing, costs associated with obtaining regulatory approvals and filing additional patent applications to protect our intellectual property, and possible strategic acquisitions or alliances, as well as to meet our liabilities as they become due for the next 12 months.

As of December 31, 2011, we had $1,209,185 aggregate principal amount outstanding on various promissory notes. We may pay the principal and interest due on these notes in cash or in stock, at our option, at maturity. In addition, as of December 31, 2011, we had $706,688 of outstanding accounts payable and accrued expenses, of which $86,720 relates to interest due on outstanding promissory notes, and $619,968 relates to accrued and unpaid payables. (See Note 10.)

During the year ended December 31, 2011, we received $1,443,493 pursuant to our private securities offerings. (See Note 5.) Additionally, during March 2011, pursuant to the Central Garden & Pet Company transaction, we received $100,000 deposit for future orders. (See Note 3.)

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

Organization

The Company was initially organized under the laws of the State of Florida in 1989, and in 1991 merged into a Delaware corporation. It operates two subsidiaries, BioLargo Life Technologies, Inc., organized under the laws of the State of California in 2006, and Odor-No-More, Inc., organized under the laws of the State of California in 2009.

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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, wound healing 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 only one area -- the animal health industry, under the brand name "Odor-No-More". In March 2011, we 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 key industry experts to our team, we are also actively seeking opportunities for product sales or licensing in the oil and gas industry, the food processing industry, and the medical products industry.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

As of December 31, 2010 and 2011, 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. As of December 31, 2011, our cash deposits at U.S banks was less than the Federal Deposit Insurance Corporation insurance limit of $250,000 per owner. From time to time during the year we are 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.

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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 and 2011.

Inventory

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

	December 31, 2010	December 31, 2011
Raw materials	$ 5,013	$ 27,556
Finished goods (Note 4.)	2,800	34,309
Total inventory	$ 7,813	$ 61,865

The increase in inventory for the year ended December 31, 2011 is primarily a result of the production of our new 5lb bag bedding additive product.

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 and $29,728 as of December 31, 2010 and 2011, respectively. Depreciation expense for the years ended December 31, 2010 and 2011 was $9,564 and $7,866, respectively.

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, 2010 and 2011, 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.

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.

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Non-Cash Transactions

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

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

Revenue Recognition

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

Income Taxes

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of asset and liabilities. Deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on deferred tax asset and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We account for uncertainties in income tax law under a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns as prescribed by GAAP. Under GAAP, the tax effects of a position are recognized only if it is “more-likely-than-not” to be sustained by the taxing authority as of the reporting date. If the tax position is not considered “more-likely-than-not” to be sustained, then no benefits of the position are recognized.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments as of December 31, 2011 and 2010 approximate their respective fair values because of the short-term nature of these instruments. Such instruments consist of cash, accounts receivable, accounts payable, convertible notes, and other assets and liabilities.

Recent Accounting

In May 2011, the Financial Accounting Standards Board, or FASB, issued ASU No. 2011-04, "Fair Value Measurement" to amend the accounting and disclosure requirements on fair value measurements. This ASU limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts. Additionally, this update expands the disclosure on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. ASU No. 2011-04 is to be applied prospectively and is effective during interim and annual periods beginning after December 15, 2011. We do not expect the adoption of this guidance to have a material effect on our consolidated financial statements.

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In June 2011, the FASB issued ASU No. 2011-05, “Presentation of Comprehensive Income”. This ASU presents an entity with the option to present the total of comprehensive income, the components of net income, and the component of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders’ equity/deficit. The amendments in this update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU No. 2011-05 should be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. As ASU No. 2011-05 relates only to the presentation of Comprehensive Income, we do not expect the adoption of this guidance to have a material effect on our consolidated financial statements.

Note 3. Customer Deposit

On March 24, 2011, we entered into a contract in which Central Garden & Pet Company (“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 agreement provided that we are 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.

Pursuant to the Central contract, we received $100,000 deposit 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.

Through the date of the filing of this Annual Report, no product orders were received under the Central contract.

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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 plus additional payments of $23,000. Of the amounts received from Isan USA, $109,720 was considered deferred revenue. Isan USA was unable to secure financing, and ceased making the required monthly payments. Given the failure of Isan USA to secure financing, on August 12, 2011 we and Isan USA mutually agreed to terminate the Isan USA Sublicense. The remaining Isan USA deferred revenue balance of $109,720 was recorded as revenue during the year ended December 31, 2011.

Horn Warehouse

As of December 31, 2011, we had finished goods totaling $31,278 of product at our distribution partner, Horn (formerly the E.T. Horn Company). Horn warehouses our product and makes it available to us for later sales, and thus for revenue recognition purposes, the sale to Horn is deferred until such time as the product is sold to retailers and/or end-users. As of December 31, 2011, a balance of $52,509 relating to the sale of Odor-No-More product to Horn remains as deferred revenue.

Note 5. Private Securities Offerings

Fall 2011 Offering

Pursuant to a private offering of our common stock at a price of $0.35 per share that commenced September 2011 (the “Fall 2011 Offering”), we received subscriptions from 16 accredited investors for the purchase of 1,336,299 shares of our common stock at $0.35 per share. In the year ended December 31 2011, we received $370,723 gross proceeds and issued 1,059,215 shares of our common stock. The remaining funds were received subsequent to December 31, 2011. (See Note 13.)

Each purchaser of stock in the Fall 2011 Offering received, for no additional consideration, a stock purchase warrant (the “Fall 2011 Warrant”) entitling the holder to purchase the same number of shares of common stock for $0.50 per share until December 31, 2012. (See Note 7.)

Winter 2011 Offering

Pursuant to a private offering of our common stock at a price of $0.35 per share that commenced January 2011 and terminated June 2011 (the “Winter 2011 Offering”) we sold 2,765,070 shares of our common stock at $0.35 per share and received $967,768 gross proceeds from the sales.

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 $1,132,500 gross proceeds from the sales. Of these amounts, we issued 350,000 shares of common stock and received $105,000 during the three-month period ended March 31, 2011.

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Spring 2010 Offering

Pursuant to a private offering that commenced January 2010 (the "Spring 2010 Offering") and terminated July 2010, we sold $438,775 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 is convertible into an aggregate 763,235 shares of our common stock, at $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") was exercisable at a price of $0.75 per share and expired unexercised 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 7.)

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, the principal amount of which is convertible into an aggregate 1,238,935 shares of our common stock at a 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") was exercisable at a price of $0.75 per share and expired unexercised on 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 7.)

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 were due and payable October 15, 2011, to 18 investors, convertible at a price of $0.50 per share. These notes were fully paid at maturity by the issuance of stock pursuant to the terms of the notes. (See Note 6.)

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. The first warrant (the "Fall 2008 One-Year Warrant") was exercisable at $0.50 per share and expired unexercised on October 15, 2009. The second warrant (the "Fall 2008 Three-Year Warrant") is exercisable at $1.00 per share (initially issued at$2.00 per share) and was set to expire on October 15, 2011. The expiration date was extended by a year to October 15, 2012 (see Note 7).

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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 Notes

Fall 2008 Notes

On the October 15, 2011 maturity date of the Fall 2008 Notes (see Note 5), pursuant to the terms of the Fall 2008 Notes, we elected to convert the remaining $723,000 aggregate principal balance of the notes, and $72,300 of accrued and unpaid interest, into an aggregate 1,590,600 shares of our common stock, fulfilling our obligations with respect to the notes.

Spring 2008 Notes

On the March 31, 2011 maturity date of the Spring 2008 Notes (see Note 5), pursuant to the terms of the Spring 2008 Notes, we elected to convert the remaining $913,625 aggregate principal balance of the notes, and $76,051 of accrued and unpaid interest, into an aggregate 733,108 shares of our common stock, fulfilling our obligations with respect to the notes.

Spring 2009 Notes

On April 16, 2011, a holder of a promissory note issued in our Spring 2009 Offering (see Note 5) elected to convert the principal balance of $11,000, and accrued unpaid interest of $964, into an aggregate 21,754 shares of our common stock, at a conversion price of $0.55.

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.

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Note 7. 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, 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)	$ 0.125 – 2.00
Outstanding as of December 31, 2010	6,894,215	$ 0.75 – 1.30
Issued	3,723,118	$ 0.75 – 1.00
Exercised	—	$ —
Expired	(3,336,695)	$ 0.75 – 2.00
Outstanding as of December 31, 2011	7,280,683	$ 0.125 – 1.00

To determine interest expense related to our outstanding warrants issued in conjunction with debt offerings, the fair value of each award grant is estimated on the date of grant using the Black-Scholes option-pricing model and the calculated value is amortized over the life of the warrant. The determination of expense of warrants issued for services or settlement also uses the option-pricing model. The principal assumptions we used in applying this model were as follows:

	2010	2011
Risk free interest rate	0.24 – 1.38%	0.22 – 1.87%
Expected volatility	400 – 765%	150 – 558%
Expected dividend yield	—	—
Forfeiture rate	—	—
Expected life in years	1.00 – 3.00	0.50 – 3.00

The risk-free interest rate is based on U.S Treasury yields in effect at the time of grant. Expected volatilities are based on historical volatility of our common stock. The expected life in years 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 $1,325,057 and $600,470 of interest expense related to the amortization of the discount on convertible notes for the years ended December 31, 2010 and 2011, respectively.

Fall 2011 Warrants

From the inception of our Fall 2011 Offering in September 2011 through December 31, 2011, we issued warrants to purchase up to an aggregate 1,059,215 shares of our common stock to the purchaser of stock in our Fall 2011 Offering. These warrants are set to expire on December 31, 2012 and have an exercise price of $0.50 per share.

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 were initially set to 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.

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Spring 2010 Warrant Extension

On July 15, 2011, the expiration date of the Spring 2010 Eighteen Month Warrant was extended six months from July 15, 2011 to January 15, 2012. The fair value of the extension was an aggregate $57,089 and will be expensed ratably through the expiration period of January 15, 2012. This warrant expired January 15, 2012, unexercised.

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.

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. The Spring 2009 One-Year Warrants expired unexercised December 1, 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 expired on October 15, 2011, at an exercise price of $1.00 per share (initially issued at $2.00 per share). The expiration date of the Fall 2008 Three-Year Warrants was extended from October 15, 2011 to October 15, 2012.

On September 28, 2011, we extended the expiration date of the Fall 2008 Three-year Warrant by one year from October 15, 2011 to October 15, 2012 resulting in a fair value of $180,172 which will be expensed ratably through the expiration period of October 15, 2012.

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 expired March 31, 2011, at an exercise price of $1.00 per share (initially issued at $1.50 per share).

Other Warrants

On May 11, 2011 we issued a warrant to consultants for services provided to purchase up to an aggregate 183,545 shares of our common stock at an exercise price of $0.55 per share, resulting in a fair value of $100,950, which was recorded as selling, general and administrative expense. The warrant expires May 11, 2016.

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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, which was recorded as interest expense through December 31, 2010. The warrant expires June 8, 2013.

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.

Note 8. Stockholders' Equity

Preferred Stock

Our certificate of incorporation authorizes our Board of Directors to issue preferred stock, from time to time, on such terms and conditions as they shall determine. As of December 31, 2010 and December 31, 2011 there were no outstanding shares of our preferred stock.

Common Stock

As of December 31, 2010 and December 31, 2011 there were 51,782,619 and 59,242,220 shares of common stock outstanding, respectively. The increase in shares during the year ended December 31, 2011 is comprised of the following stock issuances: (i) 2,765,070 shares of our common stock issued to purchasers of our Winter 2011 PPM, (ii) 1,590,600 shares of our common stock issued to purchasers or our Fall 2008 convertible notes (iii) 1,059,215 shares issued to purchasers of our Fall 2001 PPM, (iv) 733,108 shares as payment of our Spring 2008 Notes and related accrued interest, (v) 590,244 shares of our common stock to our officers for payment of payables and as a stock bonus, (vi) 350,000 shares issued to purchasers of our Summer 2010 PPM, (vii) 177,673 shares as payment of our Spring 2009 Notes accrued interest, (viii) 100,092 shares as payment of our Spring 2010 Notes accrued interest, and (ix) 93,599 shares as payment to consultants in lieu of accrued and unpaid obligations.

Note 9. Stock-Based Compensation and Other Employee Benefit Plans

2007 Equity Incentive Plan

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

On April 29, 2011, a majority of our stockholders consented to an amendment to our 2007 Equity Incentive Plan to increase the maximum aggregate number of shares of our Common stock reserved for issuance under the plan from 6,000,000 shares to 12,000,000 shares. This amendment was disclosed in the Information Statement filed by the Company on May 2, 2011, and was effective as of June 14, 2011.

During the period ended December 31, 2011 we issued options to third-party consultants and our officers and members of our board of directors, as reflected in the following tables.

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Third-party consultants:

2007 Plan		Exercise Price	Stock Price	Shares Purchasable	Fair Value	Vested
Conversion of accounts payable	(1)	$ 0.35 - 0.45	$ 0.30 - 0.45	839,459	$ 279,792	$ 279,792
Issued by Compensation Committee	(2)	$ 0.41	$ 0.41	565,000	231,650	231,650
Pursuant to an agreement	(3)	$ 0.35 - 0.40	$ 0.33 - 0.40	639,897	251,890	181,214
Total				2,044,356	$ 763,332	$ 692,655

(1) During 2011 we issued Options to purchase an aggregate 839,459 shares of our common stock in exchange for the settlement of accrued and unpaid obligations totaling $168,903. (See Note 10.) Each option is fully vested upon issuance and expires ten years from the date of issuance. The fair value of these options totaled $279,792 resulting in an additional $111,699 of selling, general and administrative expense.

(2) On March 17, 2011, the Company's Compensation Committee issued options pursuant to the Company's 2007 Equity Incentive Plan to certain 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 565,000 shares of the Company's common stock were issued, at an exercise price of $0.41 per share, the closing price of the Company's common stock on the date of grant. Each option is fully vested upon issuance and expires ten years from the date of issuance.

(3) On December 23, 2011, we entered into a month to month agreement with a consultant and in accordance with the agreement, issued an option to purchase 102,000 shares of our common stock at an exercise price of $0.35, the stock price on the grant date. 42,500 of the options vested immediately and the balance 59,500 vest monthly until July 2012. The options are exercisable for ten years. The aggregate fair value of these options total $33,660 and $14,025 was expensed as selling, general and administrative expense through December 31, 2011 and the remaining $19,635 will be expensed ratably through July 2012.

On August 31, 2011, we entered into a one-year agreement with a senior advisor and in accordance with the agreement, issued an option to purchase 250,000 shares of our common stock at an exercise price of $0.40, the stock price on the grant date. The options vest monthly over the one year term of the agreement and are exercisable for ten years. The aggregate fair value of these options total $87,500 and $36,458 was expensed as selling, general and administrative expense through December 31, 2011 and the remaining $51,042 will be expensed ratably through July 2012.

Pursuant to the terms of an agreement with a senior advisor dated July 10, 2011, we granted options to purchase an aggregate 287,897 shares of our common stock to a consultant. These options are fully vested and are exercisable at prices ranging between $0.40 and $0.51 depending upon their respective dates of grant. The fair value of these option issuances was an aggregate $130,700 and was recorded as selling, general and administrative expense.

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Officers and board of directors:

2007 Plan		Exercise Price	Stock Price	Shares Purchasable	Fair Value	Vested
Conversion of accounts payable	(4)	$ 0.35 - 0.48	$ 0.32 - 0.48	539,345	$ 195,163	$ 195,163
Issued by Compensation Committee	(5)	$ 0.41	0.41	200,000	82,000	82,000
Pursuant to an agreement	(6)	$ 0.35 - 0.42	$ 0.35 - 0.42	158,334	64,117	55,917
				897,679	$ 341,280	$ 333,080

(4) On December 30, 2011 we issued an option to purchase an aggregate 325,000 shares of our common stock to our board of directors at $0.35 per share, in lieu of $65,000 of accrued and unpaid obligations. Each option expires ten years from the date of issuance. The fair value of these options totaled $104,000 and was recorded as selling, general and administrative expense for the period ending December 31, 2011.

On April 2, 2011 we issued an option to purchase an aggregate 46,875 shares of our common stock to a board of directors at $0.35 per share, in lieu of $15,000 of accrued and unpaid obligations. Each option expires ten years from the date of issuance. The fair value of these options totaled $22,500 and was recorded as selling, general and administrative expense for the period ending December 31, 2011.

On March 17, 2011 we issued an option to purchase an aggregate 167,470 shares of our common stock to our board of directors at $0.35 per share, in lieu of $40,000 of accrued and unpaid obligations. Each option expires ten years from the date of issuance. The fair value of these options totaled $68,663 and was recorded as selling, general and administrative expense for the period ending December 31, 2011.

(5) On March 17, 2011, the Company's Compensation Committee issued options pursuant to the Company's 2007 Equity Incentive Plan to our Secretary and VP of Operations, consistent with management's recommendations to the committee. In total, options to purchase an aggregate 200,000 shares of the Company's common stock were issued, at an exercise price of $0.41 per share, the closing price of the Company's common stock on the date of grant. Each option is fully vested upon issuance and expires ten years from the date of issuance. The fair value of these options totaled $82,000 and was recorded as selling, general and administrative expense for the period ending December 31, 2011.

(6) On August 18, 2011 we issued an option to purchase an aggregate 8,334 shares of our common stock to a new independent member of our Board of Directors, pursuant to the terms of the 2007 Equity Plan which calls for an automatic issuance of an option to any new independent director. The option vests after a period of one year from the date of grant, expires ten years from the date of issuance, and is exercisable at $0.35 per share, the price of our common stock on the grant date. The fair value of this option totaled $2,917 and was expensed.

On June 14, 2011 we issued an option to purchase an aggregate 20,000 shares of our common stock to the existing members of our Board of Directors, pursuant to the terms of the 2007 Equity Plan which calls for an automatic issuance of an option at each proxy. The option vests upon issuance, expires ten years from the date of issuance, and is exercisable at $0.39 per share, the price of our common stock on the grant date. The fair value of this option totaled $7,800and was expensed.

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During March 2011, we granted options to purchase an aggregate 130,000 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 exercise prices ranging between $0.41 and $0.42 depending upon their respective dates of grant and vest ratably from February 28, 2011 through January 31, 2012. Through December 31, 2011, 120,000 options have vested. The options are exercisable for ten years from its respective date of grant. The fair value of these option issuances was an aggregate $53,400 and $49,300 was recorded as selling, general and administrative expense as of December 31, 2011. The $4,100 of fair value related to the remaining 10,000 options will be expensed January 2012.

During the period ended December 31, 2010 we issued the following options to:

Third-party consultants:

2007 Plan		Exercise Price	Stock Price	Shares Purchasable	Fair Value	Vested
Conversion of accounts payable	(7)	$ 0.30	$ 0.23	1,026,378	$ 236,067	$ 236,067
Issued by Compensation Committee	(8)	$ 0.58	$ 0.50	200,000	100,000	100,000
Pursuant to an agreement	(9)	$ 0.22-0.40	$ 0.25-0.45	327,507	106,686	106,686
Grand Total				1,553,885	$ 442,753	$ 442,753

(7) During 2010 we issued Options to purchase an aggregate 1,026,378 shares of our common stock at $0.30 per share to some of our third party consultants in lieu of $215,276 of accrued and unpaid obligations. Each option is fully vested upon issuance and expires ten years from the date of issuance. The fair value of these options totaled $236,067 resulting in an additional $20,791 of selling, general and administrative expense.

(8) On February 1, 2010, the Company's Compensation Committee issued an Option to purchase 200,000 shares of our common stock at $0.58 per share, pursuant to the Company's 2007 Equity Incentive Plan to outside consultants and professionals who have and continue to provide services to the Company, consistent with management's recommendations to the committee. Each option is fully vested upon issuance and expires ten years from the date of issuance. The fair value of these options totaled $100,000 recorded as selling, general and administrative expense as of December 31, 2010.

(9) 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. Each option is fully vested upon issuance and is exercisable for ten years from its respective date of grant. The resulting aggregate fair value of $92,911 was recorded as selling, general and administrative expense as of December 31, 2010.

On September 29, 2010, we granted options to purchase an aggregate 280,007 shares of our common stock to a consultant, pursuant to the terms of our engagement agreement with him. These options are exercisable at $0.30 and the stock price on the grant date was $0.29. The option is fully vested upon issuance and is exercisable for ten years. The resulting aggregate fair value of $13,775 was recorded as selling, general and administrative expense as of December 31, 2010.

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Officers and board of directors

2007 Plan		Exercise Price	Stock Price	Shares Purchasable	Fair Value	Vested
Conversion of accounts payable	(10)	$0.30	$0.23	746,203	$171,627	$171,627
Issued by Compensation Committee	(11)	$0.58 to	$0.50	660,000	330,000	330,000
Pursuant to an agreement	(12)	0.23 - $0.50	0.23 - $0.50	140,000	53,400	53,400
				1,546,203	$555,027	$555,027

(10) On August 4, 2010, in an effort to preserve our cash and reduce outstanding payables, the Board offered to officers and board members the opportunity to convert outstanding payable amounts into an option ("Option") to purchase common stock in lieu of cash payment. The Option 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.

We issued Options to purchase an aggregate 746,203shares of our common stock in exchange for the settlement of accrued and unpaid obligations totaling $149,240. 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,

(11) On February 1, 2010, the Company's Compensation Committee issued options pursuant to the Company's 2007 Equity Incentive Plan to certain officers 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 660,000 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. The options are fully vested upon issuance and expire 10 years from the date of grant. 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).

(12) 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.

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On June 11, 2010 we issued an option to purchase an aggregate 20,000 shares of our common stock to the existing members of our Board of Directors, pursuant to the terms of the 2007 Equity Plan which calls for an automatic issuance of an option at each proxy. The option vests upon issuance, expires ten years from the date of issuance, and is exercisable at $0.40 per share, the price of our common stock on the grant date. The fair value of this option totaled $8,000and was expensed.

During the years ended December 31, 2010 and 2011 we recorded an aggregate $925,800 and $1,144,928 in selling general and administrative expense related to options issued pursuant to the 2007 Plan.

Activity for our stock options under the 2007 Plan for the years ended December 31, 2010 and 2011 is as follows:

	Options Outstanding	Shares Available	Price per share	Weighted Average Price per share
Balances as of December 31, 2009	1,697,135	4,302,865	$ 0.28 – 1.89	$ 0.75
Granted	3,100,088	(3,100,088)	0.23 – 0.50	0.38
Exercised	—	—	—	—
Canceled	—	—	—	—
Balances as of December 31, 2010	4,797,223	1,202,777	$ 0.23 – 1.89	$ 0.51
Amendment to increase	—	6,000,000	—	—
Granted	2,942,035	(2,942,035)	0.35	0.35
Exercised	—	—	—	—
Canceled	—	—	—	—
Balances, December 31, 2011	7,739,258	4,260,742	$ 0.23 – $1.89	$ 0.42

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The following table summarizes the stock options issued under the 2007 Equity Plan outstanding at December 31, 2011.

Options Outstanding at December 31, 2011	Exercise Price	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Currently Exercisable Number of Shares at December 31, 2010	Weighted Average Exercise Price
20,000	$0.40	6	$0.40	20,000	$0.40
605,000	0.94 – $1.03	6	$0.97	105,000	$0.94
50,000	$1.89	6	$1.89	50,000	$1.89
110,000	0.35 – $1.65	7	$1.04	110,000	$1.04
120,000	0.28 - $0.50	7	$0.40	120,000	$0.40
20,000	$0.33	0.25	$0.33	20,000	$0.33
557,035	$0.50	1	$0.50	557,035	$0.50
155,100	$0.55	1	$0.55	155,100	$0.55
30,000	$0.57	8	$0.57	30,000	$0.57
30,000	0.45 – $0.50	8	$0.48	30,000	$0.48
200,000	$0.50	8	$0.50	200,000	$0.50
660,000	$0.50	6	$0.50	600,000	$0.50
50,000	0.25 – $0.40	8	$0.35	50,000	$0.35
1,820,081	$0.30	4	$0.30	1,820,081	$0.30
30,000	0.24 - $0.35	9	$0.27	30,000	$0.27
280,007	0.22 - $.40	9	$0.32	280,007	$0.32
30,000	0.40 – $0.50	9	$0.44	30,000	$0.44
10,000	$0.42	9	$0.42	10,000	$0.42
765,000	$0.41	9	$0.41	765,000	$0.41
260,902	0.41 – $0.45	4	$0.42	260,902	$0.42
120,000	$0.41	9	$0.41	120,000	$0.41
46,875	$0.48	5	$0.48	46,875	$0.48
20,000	$0.39	10	$0.39	20,000	$0.39
36,585	$0.45	10	$0.45	36,585	$0.45
231,078	0.43 – $0.51	10	$0.47	231,078	$0.47
65,153	0.35 – $0.40	10	$0.38	65,153	$0.38
250,000	$0.40	10	$0.40	83,333	$0.40

1,136,442	$0.35	10	$0.35	1,116,807	$0.35
7,739,258	0.33 – $1.89	7	$0.46	7,552,956	$0.46

Options issued outside of the 2007 Equity Incentive Plan

On August 12, 2011, we entered into an agreement with Steven V. Harrison whereby we retained Mr. Harrison to serve as our Director of International Ventures and Business Development. Mr. Harrison is formerly a member of our Board of Directors. In addition to salary, Mr. Harrison will receive an option to purchase 800,000 shares of common stock for $1.00 per share, which shares will vest on a monthly basis over a period of four years and expire 10 years from the issue date. Should Mr. Harrison's agreement terminate, no further shares will vest. The fair value of this option totaled $304,000 and through the year ended December 31, 2011 we recorded $25,333 as consulting expense and the remaining fair value of $278,667 will be expensed ratably through August 31, 2015.

	Options Outstanding		Price per share		Weighted Average Price per share
Balances as of December 31, 2009	10,825,234	$	0.18 – 0.99	$	0.38
Granted	46,250		0.30		0.30
Exercised	—		—		—
Canceled	—		—		—
Balances as of December 31, 2010	10,871,484	$	0.18 – 0.99	$	0.38
Granted	800,000	$	1.00	$	1.00
Exercised	—		—		—
Canceled	—		—		—
Balances as of, December 31, 2011	11,671,484	$	0.25 – $1.89	$	0.43

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The following table summarizes the stock options issued outside of the 2007 Equity Incentive Plan outstanding at December 31, 2011.

Options Outstanding at December 31, 2011	Exercise Price	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Currently Exercisable Number of Shares at December 31, 2011	Currently Exercisable Weighted Average Exercise Price
7,733,259	$0.18	5	$0.18	7,733,259	$0.18
2,400,000	$0.99	1	$0.99	2,400,000	$0.99
691,975	$0.55	0.25	$0.55	691,975	$0.55
46,250	$0.30	4	$0.30	46,250	$0.30
800,000	$1.00	10	$1.00	66,667	$1.00
11,671,484	0.18 – $1.00	4	$0.43	11,671,484	$0.43

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, 2011:

	2010 Non Plan	2010 2007 Plan	2011 Non Plan	2011 2007 Plan
Risk free interest rate	1.55 %	1.55 – 2.76	1.03-3.48 %	2.24 %
Expected volatility	724 %	915 %	724 %	906 %
Expected dividend yield	—	—	—	—
Forfeiture rate	—	—	—	—
Expected life in years	5	7	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.

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Note 10. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included the following:

		December 31, 2010		December 31, 2011
Accounts payable and accrued expenses	$	519,156	$	448,177
Accrued interest		164,694		86,720
Officer and Board of Director Payables		26,569		171,791
Total Accounts Payable and Accrued Expenses	$	710,419	$	706,688

Issuance of Common Stock in exchange for payment of payables

Payment of Officer Salaries and Board of Director Fees

On March 21, 2011, we issued an aggregate 190,244 shares of our common stock, at a conversion price of $0.41, which was the closing price of our common stock on the day of issuance, to our Chief Financial Officer in lieu of $78,000 in accrued and unpaid payables for his services.

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. The stock price was $0.41 on the date of grant, resulting in $163,168 of compensation expense.

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.

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.

Payment of Consultant Fees

On December 23, 2011, we issued an aggregate 13,084 shares of our common stock, at a conversion price of $0.30, in lieu of $3,925 of fees related to consultants. This entire amount related to services performed in 2011.

On May 23, 2011, we issued 25,000 shares of our common stock at a conversion price of $0.45 per share, in lieu of $11,250 to a consultant in exchange for research and marketing services.

On March 30, 2011, we issued an aggregate 55,515 shares of our common stock, at a conversion price of $0.48, in lieu of $30,688 of fees related to consultants. This entire amount related to services performed in 2011.

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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Accrued Interest

During the years ended December 31, 2010 and 2011, we recorded $264,791 and $158,830 of interest expense related to the convertible notes outstanding, respectively.

On October 15, 2011, per the terms of the Fall 2008 Notes, we elected to convert the remaining accrued and unpaid interest balance of $72,300 into 144,600 shares of our common stock, at a conversion price of $0.50 per share.

On June 1, 2011, per the terms of the Spring 2010 Notes, we elected to convert accrued and unpaid interest of $46,986 into 100,092 shares of our common stock, at a conversion price of $0.47 per share.

On April 15, 2011, per the terms of the Spring 2009 Notes, we elected to convert accrued and unpaid interest of $67,041 into 155,919 shares of our common stock, at a conversion price of $0.43 per share.

On March 31, 2011, per the terms of the Spring 2008 Notes, we elected to convert the remaining accrued and unpaid interest balance of $76,051 into 56,334 shares of our common stock, at a conversion price of $1.35 per share.

During the year ended December 31, 2010, we converted an aggregate $639,933 of accrued and unpaid interest into shares of our common stock.

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

Issuance of Stock Options in exchange for payment of payables

During December 2011, we issued options to purchase an aggregate 1,034,442 shares of our common stock in exchange for the settlement of accrued and unpaid obligations totaling $206,888. (See Note 9.)

On March 17, 2011, in an effort to preserve our cash and reduce outstanding payables, the Board offered to third parties the opportunity to convert outstanding payable amounts into an option ("Option") to purchase common stock in lieu of cash payment. We issued Options to purchase an aggregate 260,904 shares of our common stock in exchange for the settlement of accrued and unpaid obligations totaling $71,980. (See Note 9.) Of this amount we issued an option to purchase an aggregate 167,470 shares of our common stock to our board of directors at $0.41 per share, an option to purchase an aggregate 68,433 share of our common stock to a third-party consultants at $0.41 per share, and an option to purchase 25,000 shares of our common stock to a third-party consultant at $0.45 per share. Each option expires five years from the date of issuance.

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.

Note 11. Notes Payable

On June 8, 2010, we received $100,000 and issued a promissory note with an initial maturity date of December 3, 2010, which accrues interest at a rate of 10%. The noteholder, for no additional consideration, received a stock purchase warrant entitling the holder to purchase 50,000 shares of our common stock, exercisable at $0.50 per share until June 3, 2013. (See Note 7.) The maturity date of the note was extended to December 3, 2011, and again, to December 3, 2012.

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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 1, 2011. On March 1, 2011, we paid the remaining principal amount of $20,000, and $9,590 of accrued interest, in full satisfaction of the note.

For the year ended December 31, 2010 and 2011 we recorded $12,206 and $13,296 of interest expense related to these note payables.

Note 12. Provision for Income Taxes

Given the company's historical losses from operations, income taxes have been limited to the minimum franchise tax assessed by the State of California.

We have no unrecognized tax benefits for uncertain tax position as defined under GAAP for either of the years ended December 31, 2010 or 2011. Further, we have evaluated our income tax position and concluded that no accrual for additional taxes, penalties or interest are required. To the extent applicable in the future, interest and penalties will be included in pre-tax income as interest expense and tax penalties.

At December 31, 2011 we had federal and California tax net operating loss carry-forwards of approximately $33 million. In the event of changes in our ownership through common stock issuances, the utilization of net operating loss carry-forwards may be subject to annual limitations and discounts under provisions of the Internal Revenue Code. Such limitations could result in the permanent loss of a significant 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.

At December 31, 2011, our U.S. Federal and California State income tax returns related to the years 2008-2010 remain open to examination by tax authorities. However, given our history of net operating losses, as discussed above, the statute of limitations could remain open to examine years prior to 2007 for the year(s) in which net operating losses were originally incurred if/when we reach profitability and begin to utilize our net operating losses to offset taxable income.

Note 13. Subsequent Events.

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

Winter 2012 Offering

Pursuant to a private offering of our common stock at a price of $0.35 per share that commenced January 2012 (the "Winter 2012 Offering") in which we seek to raise up to a maximum $1,000,000, we sold 1,455,722 shares of our common stock at $0.35 per share from 16 accredited investors and received $509,500 gross proceeds from the sales.

Each purchaser of stock in the Winter 2012 Offering will receive, for no additional consideration, a stock purchase warrant (the "Winter 2012 Warrant") entitling the holder to purchase the same number of shares for $0.50 per share until January 31, 2013.

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Fall 2011 Offering

Subsequent to December 31, 2011, we received funds from investors previously subscribed to the Fall 2011 Offering and issued 277,084 shares of our common stock and warrants to purchase 277,084 shares of our common stock.