BIOLARGO, INC.
Form 10-K
March 30, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

**(Mark One)**

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

**For the Fiscal Year ended December 31, 2015**

**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** | **(IRS Employer** |
| **of incorporation or organization)** | **Identification No.)** |

| | |
|---|---|
| **3500 W. Garry Ave., Santa Ana, CA** | **92704** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**Registrant'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

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

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

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

Indicate by check mark 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

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 |

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2015 was approximately $19,196,841 which is based on 51,883,353 shares of common stock held by non-affiliates and the price at which the common equity was sold on that date.

The number shares outstanding of the issuer’s class of common equity as of March 29, 2016 was 86,271,712; no preferred shares are issued or outstanding as of that date.

DOCUMENTS INCORPORATED BY REFERENCE

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 20, 2016.

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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, 2015 (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, 2015, unless expressly stated otherwise.

As used in this report, the term “we” or “Company” refers to BioLargo, Inc., a Delaware corporation, and its subsidiaries, BioLargo Life Technologies, Inc., a California corporation, Odor-No-More, Inc., a California corporation, BioLargo Water USA, Inc., a California corporation, and Clyra Medical Technologies, Inc., a California corporation. On January 10, 2014, we formed a Canadian subsidiary BioLargo Water, Inc., wholly owned by Biolargo Water USA, Inc.

**Our Business**

We make life better by delivering simple and sustainable solutions to big problems. We create and refine intellectual property that forms a foundation from which to build and create break-through products and technology for licensure to commercial partners. Our products harness the power of iodine – “Nature's Best Solution” – to eliminate contaminants that threaten our water, our health and our quality of life.

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

***Invent – Three Platform Technologies***

We feature three patent protected platform technologies with diverse product opportunities across multiple industries – the AOS Filter, CupriDyne, and Isan. Each features the use of the all-natural iodine molecule. While they all use iodine, they are quite different in terms of the methods by which they exploit the use of iodine, the form and composition of iodine used, and therefore their function and value proposition can be quite different for each commercial application.

***AOS Filter***

The AOS Filter is our invention that combines iodine, water filter materials and electrolysis within a water filter device. Our filter generates extremely high oxidation potential in order to oxidize and break-down, or otherwise eliminate, soluble organic contaminants like acids, solvents, sulfurs, oil and gas by-products, and pharmaceutical by-products which are commonly found in all sorts of contaminated water. It also achieves extremely high rates of disinfection to eliminate infectious biological pathogens like salmonella, listeria and ecoli.

Extremely high oxidation potential is the key. The term ‘oxidation potential’ refers to the measure of the performance in which an oxidant is able to ‘break down’ a material through, in simple terms, the addition of oxygen and the transfer of electrons. Two commonly understood examples of oxidation are, as salt air rusts a shipyard anchor, or as fire is able to dismantle wood and turn it into ash. The key to our AOS Filter is its ability to generate extremely high oxidation potential in a continuous flow device that attacks contaminants in water that flow through the AOS Filter. The extremely high oxidation potential enables the AOS Filter to achieve performance results that researchers at the University of Alberta refer to as, **‘unprecendented’**. Our AOS Filter embodies a break-through in science which led to BioLargo's co-founding of an ongoing research chair to solve the contaminated water issues associated with the Canadian Oil Sands at the University of Alberta Department of Engineering with the top five oil companies in Canada, the regional water district, and various environmental agencies of the Canadian government. Our work is continually expanding into a number of commercial applications with a key focus on food processing, agriculture and oil and gas. We are also evaluating opportunities in the maritime industry, mining, storm drain recapture / recycling, and drinking water. It is an award-winning invention that is supported with science and engineering financial support and grants from various federal and provincial agencies in Canada. The financial support is expanding along with the work to develop commercially available designs. We believe the AOS Filter has an important and substantial commercial opportunity in every segment of the water treatment industry.

***CupriDyne®***

Our CupriDyne formula is used to deliver iodine within products. It can be delivered in any physical form, and can be combined with other ingredients, like fragrances in our odor control products, and primitive surfactants in our stain and odor products. Additional ingredients can often be added without sacrificing its practical and safe antimicrobial functions as well its oxidation potential. Our product designs include liquids, sprays, gels, powders, coatings and absorbents.

Safe and effective is the key. Each of our product designs delivers nature's broadest spectrum and most potent disinfectant – iodine – safely and precisely to achieve effective broad-spectrum disinfection, unsurpassed odor and moisture control, and effective and gentle wound healing. Our primary ingredients, as well as reaction by-products, are "generally recognized as safe" (G.R.A.S) by the U.S. Food and Drug Administration as food additives in their basic forms. Its commercial product opportunities are diverse and we have an extensive menu of product designs in various stages of commercialization and licensure development, discussed in detail below in the "Commercial, Household and Personal Care Products" section. We specialize in delivering iodine, nature's broadest spectrum and most potent disinfectant and essential nutrient, in safe, environmentally friendly, non-staining, non-toxic and effective product designs.

CupriDyne is unique. The iodine most of us are familiar with, sold in pharmacies and used by hospitals, has severe limitations – it is considered toxic, causes staining, and contains a limited dose of the active oxidizing ingredient. Our CupriDyne technology, on the other hand, directly addresses many of these shortcomings – it delivers iodine's oxidizing ingredient ("free iodine") with precision, ranging from very small doses up to very large doses with more than 20 times the power of traditional iodine. We can deliver iodine so that it is both non-toxic and non-staining, thus extending its usefulness well beyond historical product applications. Our formulations expand the functionality of our products well beyond simple disinfection.

***Isan System***

The Isan System is an automated iodine dosing system. It is the winner of a Top 50 Water Technology Award by the Artemis Project and a Dupont Innovation Award. Precise dosing combined with a straight-forward 'set-it-and-forget-it' automated computer controlled system is the key. The system features controlled measuring, flow control, dosing and iodine extraction/removal technology as well as an automatic tracking system that precisely delivers iodine in calibrated doses into a water steam or container of water. The Isan system has been proven to substantially reduce the incidence of fungal growth, spoilage, organisms and pathogens in water and on food. The system is able to operate at high flow rates.

First developed in Australia, the Isan system was initially registered with the APVMA (Australian Pesticides and Veterinary Medicines Authority) and FSANZ (Food Standards Australia and New Zealand) in Australia and New Zealand. The system has meaningful use and commercial value in any industry that can benefit from a precise use of iodine in water, like; agriculture, food production and processing, manufacturing, industrial water processes, irrigation supply.

***Patent - an Expanding Intellectual Property Estate***

We have 16 patents issued and multiple pending. We believe these patents provide a foundation from which to continue building our patent portfolio and we have reasonable basis upon which to rely on our patent protections in the field of art in which we practice. We also rely on trade secrets and technical know-how to establish and maintain additional protection of our intellectual property. As our capital resources permit, we expect to expand our patent protection as we continue to refine our inventions as well as make new discoveries. See the detailed discussion below of our patent portfolio.

***Prove - a Continual Process***

We have invested time and money in a wide array of third party testing, side-by-side comparisons and third party verifications to support our most important technical claims. The basic attributes of iodine are well understood by science and industry. We have evidence and experience to substantiate the following bold claims:

- AOS Filter- when compared to the best of class competition we are

  100 times more effective

  less than 1/20$^{th}$ the cost

  more than 10 times faster

oCupriDyne

Generally Accepted As Safe (G.R.A.S.) – ingredients and by products are GRAS according to the FDA.

Broad spectrum disinfection (>99.9%)

Potent (less than 1/20$^{th}$ the dose of comparable disinfectant [like chlorine] to achieve similar results)

Total odor elimination

Non-toxic and gentle

Increases holding power of absorbents by up to six times

Promotes rapid healing (animal care products)

De-scaling

Eliminates Sulfur, Ammonia, Fatty Acids, Mercaptans

Enhanced flocculation

Nutritive

oIsan System

Precise iodine dosing

Anti-bacterial, anti-fungal, anti-viral

Effective against top five plant pathogens

Promotes extended shelf-life

Enhances root growth and foliage growth for healthier plants

***Partner – a Smart Strategic Decision***

We seek to develop commercial partnerships with other companies who will partner with us and pay us for a negotiated contractual right to use our intellectual property (patents, formulas, designs, claims, know-how, secrets), in order to expand their business for their own commercial purposes. In those instances, we seek a reasonable deposit, a minimum commitment to volume, some territorial rights, and a percentage of sales for a mutually agreeable term and territory. We believe this licensing model will prove successful and meaningful for our company.

We have chosen to focus on business opportunities that we believe have some combination of the following attributes: a compelling commercial advantage, our products out-perform competing products, market segments in which we have the talent and resources or opportunity to succeed in executing our business plans; and uses where we can identify a compelling cost savings or value offering to increase market share.

We choose to pursue a licensing strategy for its obvious and well-understood high margins, potential for explosive revenue potential and capital conserving features. While this business model can also be highly dependent upon macro-economic factors like the relative stability of the national and international economy as well as cyclical nature of business, politics and climate for innovation and competing technical advances, we believe this is the most appropriate strategy for our company. We have learned from difficult and real life experience. When our commercial licensing partners are under financial pressure from macro-economic and political circumstances, including reorganizations, recapitalization, or consolidation, they hold on to capital and are less likely to take any risk for new product offerings. Timing is critically important. Companies facing circumstances beyond their management's control are less likely to embrace any risk of innovation. Therefore, our time delays have negatively impacted our company by causing us to invest more capital, do more work, and advance our technology with nominal cash flow to support our work. However, while these delays have occurred and they were difficult, we have been able to maintain our operations, advance our scientific assets, build on our proven claims, refine our designs and we have continued to build a portfolio of both products and technology that we believe will ultimately enjoy meaningful commercial success.

While we have waited out many of the uncertainties of the macro-economic marketplace, we have advanced our commercial purposes and made investments in various aspects of product design, marketing and distribution, but only at an early stage and small level. In those instances, we consider these efforts to be a prelude to an ultimate licensing strategy. This strategy has been slower than we prefer. However, it has created a substantial level of diversification and breadth of potential revenue streams that we believe can and will generate meaningful revenues as they find traction in the marketplace. As we improve our access to capital, strengthen our balance sheet and can begin to generate meaningful cash flow, we believe those commercial opportunities will generate revenue for years to come as our products find their way into the marketplace.

In many situations, our potential licensing partners would prefer that we advance products all the way through proof of claim, manufacturing, market acceptance, well-established distribution and commercial success. While this is obvious, can be intriguing, and the relative benefits that would accrue to our valuation are clear, the risks of failure are equally high and this strategy would require substantially more capital than we have been able to secure during what many believe has been one of the most economically uncertain times in modern history. Therefore, we have chosen to invest our time and resources where we find leverage to move forward, knowing that our technical claims are proven, they are patented and that each product design has a high probability of success to find a partner and generate meaningful returns on our invested capital as our targeted licensing partners seek to deploy capital assets and begin taking advantage of our offering for their own commercial advancements.

Although our technology has commercial applications within many industries, we are focusing our efforts in four areas: water treatment; industrial odor control applications; commercial, household and personal care products ("CHAPP"); and "advanced wound care."

Within these broad categories, we also narrow our product focus to exploit opportunities that we believe are of high-value to potential customers and that present commercially significant opportunities.

We have a number of examples of strategic alliance or partnering initiatives whereby we are advancing both our science, our patents, our proof of claims, field trials and our commercial opportunities. There are a number of noteworthy examples:

***The University of Alberta***

We are engaged in a cooperative research relationship with the University of Alberta and its researchers in Edmonton, Canada. The offices and lab of our Canadian subsidiary, and our staff researchers, are located within the University of Alberta research center at Discovery Place. We are able to utilize the extensive resources of the University and its researchers on a contract for hire basis as needed. We work closely with the Department of Agricultural, Food and Nutritional Science at the University of Alberta and its Department of Engineering, and partner with the University professors on government and industry sponsored financial awards and grants to support our ongoing research and development as we refine the AOS Filter in preparation of commercial pilots and commercial designs. Generally, the financial awards take on two common themes: first, science and engineering grants in which the University of Alberta is the primary recipient and contracting party with the grant agency to support work on and around our technology; and second, direct grants in which our Canadian subsidiary is the contracting party to support ongoing science and engineering to advance our AOS Filter towards commercialization, sometimes supporting the work of PhD students at the University. In both cases, the financial awards support much, but not all, of the research budget and related costs. Our research arrangement with the University has three high value propositions for BioLargo: (i) a depth of resources and talent to accomplish highly skilled work, (ii) financial aid to support research and development costs, and (iii) independent and credible validation of our technical claims. Grant revenue totaled $99,122 during the year ended December 31, 2015

***Clarion Water***

On August 18, 2014, we entered into a manufacturing and distribution license agreement for our Isan® system with Clarion Water, a new operating division of InsulTech Manufacturing, LLC (www.insultech.com), the latter of which has over 20 years of commercial success around the globe representing hundreds of millions in sales of technical products to Fortune 100 companies.

Owned in equal parts by BioLargo, Inc. and Peter Holdings, Ltd. through a joint venture agreement, the Isan system leverages the power of iodine to provide the world's most effective disinfection dosing systems. It has been referred to as one of the most important technical advancements in food safety in the past 20 years. It won a 'top 50 water company award' by the Artemis Project in 2010 and a DuPont Innovation Award for its excellence in science and innovation in 2004.

The Isan system delivers Iodine as a powerful, broad-spectrum biocide that is a logical replacement for chlorine in applications involving irrigation supply and post-harvest sanitation. Through its automated and precise dosing system, the Isan system can help increase the quality and shelf life of fruits, vegetables, and other produce, is effective against a host of bacteria and fungi, and helps producers conform to increasingly stringent food safety regulations such as the Hazard Analysis and Critical Control Points (HACCP), which addresses food safety through the analysis and control of raw material hazards.

The Isan system has been validated through early stage commercialization and comprehensive testing conducted in Australia and New Zealand. Clarion intends to leverage this early work and focus initial commercialization efforts on the vast opportunities for the technology in improving plant quality and shelf life as well as explore additional opportunities for use in select industrial applications.

Per the terms of our license agreement, Clarion receives the exclusive global manufacturing and distribution rights to the Isan system and use of all historical data to support its commercial focus. Clarion will pay BioLargo royalties on revenue equal to 10% paid quarterly in arrears. As we jointly own the Isan System with Peter Holdings, Ltd., all royalties are shared equally with Peter Holdings. There are no minimum royalty payments for the first two years, but at year three (beginning July 1, 2016) the minimum royalties are $50,000 per quarter, at year four $75,000 per quarter, and at year five and onward $100,000 per quarter. The intellectual property subject to the license agreement includes all intellectual property related to the Isan System, including all patents, trademarks, proprietary knowledge, and other similar know-how or rights relating to or arising out of the Isan System or the patents related to the Isan System. The agreement contains other terms and conditions typically found in intellectual property license agreements.

BioLargo received a royalty advance of $100,000 upon execution of a letter of intent in February of 2014, which will be applied to royalties received during the first two years of the agreement. Of this advance, $45,000 was paid to Peter Holdings under our joint venture agreement. BioLargo retains certain marketing rights to help develop clients for Clarion.

In February of 2015, Clarion Water introduced the new and improved Isan System at the world's largest agricultural trade show, the World AG Expo, as part of its commercial launch into the U.S. market.

Since licensing the technology from BioLargo last August, Clarion has completed a comprehensive technical and engineering update to the Isan System, featuring a new automated touch screen user interface, enhanced security, enhanced control features for increased monitoring and sensing, and adding automated functionality providing users unmatched flexibility, reliability and control over this state-of-the-art disinfectant delivery system, and begun commercial trials. In 2015, it filed application with the U.S. Environmental Protection Agency, which application is pending as of the date of this report.

***Downeast Logistics***

In late 2013, we entered into a cooperative selling and distribution agreement with Downeast Logistics, a certified “Service-Disabled Veteran-Owned Small Business” (SDVOSB), as our distribution partner to facilitate our first order to the US Government. Downeast has been instrumental in developing ongoing sales to the United States Military. We have six products with National Stocking Numbers. In March 2015 we secured a $150,000 “Indefinite Delivery Purchase Order” (IDPO) for the purchase of our Specimen Transport Solidifier pouches by the U.S. Defense Logistics Agency (DLA). The purchase order allows the DLA to purchase the product at agreed-upon prices for the following 12 months. In exchange, the company is awarded the contract to be the exclusive supplier of the designated product under the IDPO. During the period of the contract, approximately $30,000 in product was ordered.

In March 2016 two of our product lines (consisting of 9 SKUs) of Nature’s Best Science products were awarded a five year U.S. General Services Administration (GSA) supply contract, under schedule 65IIA for medical equipment and supplies. The award opens up access to these products through “GSA Advantage”, the online shopping and ordering system that provides government agencies access to thousands of contractors and millions of supplies (products) and services. We intend to apply for inclusion of additional existing and future products into GSA Advantage.

Downeast Logistics has operated for more than thirteen years, and will continue to offer our products through multiple channels of the US Government. Its designation as a SDVOSB places Downeast Logistics within a group of highly sought after vendors to the US government. Odor-No-More has registered, and is in the process of registering, itself as well as its products with several procurement agencies of the US Government.

***Independent Sales Representatives***

We have a number of independent representatives developing selling channels for our odor control products. We are in customer trials for our smoke-odor eliminating products. The response has been excellent and we have received the highest marks for performance that is superior to the competing products. We continue to support these selling efforts with samples, training, selling materials and competitive bulk pricing. While we cannot predict the timing or outcome of these efforts, we are confident in our products' ability to outperform the competition.

***Industrial Odor Control - Cupridyne Clean***

During 2015 we were invited by a number of potential customers to design a product for the industrial odor control industry segment and to begin trials for our "Cupridyne Clean" product for use as a cleaning and odor control product in large scale operations. We soon discovered multiple opportunities to serve the waste handling industry, waste-water treatment facilities, waste to energy conversion operations, materials recovery facilities, food processing operations, and livestock production facilities with Cupridyne Clean. We are highly encouraged by this early work, the response from customers and the welcome response from new prospects from industry. Since 2015, we have and continue to refine the product design, its claims and marketing and selling plans. Our product web site can be seen at www.cupridyne.com. Based on our test marketing and trials, we believe that many industries that must contend with odors that include, ammonia, fatty acids, sulfur, or mercaptans are dissatisfied with the current competing odor control products, place a high value on odor control solutions that actually work and are anxious to test and trial new products like our Cupridyne Clean as they search for a solution to these common and troublesome odor problems. We have been told by prospective customers and experts from these markets that effective odor control for these prospective customer groups is in among the top on a list of priorities in their daily operations and their commitment to serve their local communities where they operate. We intend to further develop our products, refine our free trial program that can be combined with a highly motivated customer service and sales program to help break open this market. We plan to attend industry conferences, join trade associations, advertise, and recruit leaders from these industries to help us refine, focus and break through to commercial success. While the success of these efforts cannot be assured, we are confident and highly encouraged to focus and invest time, energy, staff and capital in this area as resources permit.

***Multinationals and Mid-Level Industry Participants***

We began discussions with a number of multi-nationals as well as regional companies in 2014 that are continuing. This list expanded in 2015 and was highlighted by our technical symposium held in August 2015 where we had more than 30 attendees representing industry, academia and funding agencies. We have entered into technical non-disclosure agreements with a wide variety of companies to evaluate our AOS Filter and discuss potential strategic alliances. Many of these continue to monitor our technical progress and have expressed interest in the technology and potential strategic alliances as we finalize our commercially ready design. The claims we have put forth are well received. The focus of discussions in most cases has moved from efficacy, which is accepted, to a business case discussion relative to capital and time to market and the potential return on investment. While these discussions are ongoing, we continue to advance our science and proven claims. We are highly encouraged that our AOS Filter has an important role in commerce.

We believe there are a number of potential partners interested in working with us to exploit the commercial opportunities associated with the AOS Filter technology. These opportunities are limited by common and obvious limitations, capital, the relative state of development and market readiness and, adoption rates in the marketplace. Given the significant value offerings, namely enhanced performance and lower cost, we believe we will be able to find industry partners to assist in commercialization of the AOS Filter and are committed to pursue success in these markets.

***Commercial, Household and Personal Care Products***

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

We are continuing our efforts to generate "private label" clients. We have fulfilled some small orders for various products that we produced under a third party's private brand. We are meeting with new potential customers for private label opportunities. We also are in discussions with potential strategic alliance partners to provide large scale manufacturing and distribution should we secure orders for the private label business opportunities. We have a few opportunities that could expand to become large customers for our company. Success in these markets is highly dependent upon the willingness of the potential partners to invest in product support to continue marketing and expanding customer awareness.

Our sales in the CHAPP product category are nominal. Product development, sales, and marketing require significant financial resources that we currently do not have. As such, our progress in this area has been slower than we had hoped. We are marketing the technology for licensure to established companies in this industry segment, as the opportunities present themselves through our various independent agents and our key industry contacts, and we are continuing to expand our proof of claims and product designs for various odor and moisture control applications.

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

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

In December 2015, we completed a financing transaction through which $750,000 was invested into Clyra in exchange for preferred stock comprising 40% of the total issued and outstanding shares. (See Part II, Item 5, for additional information.) The investor committed to fund a $5,000,000 operating line of credit once Clyra's initial products receive FDA approval. (Details regarding this transaction are below.)

With new funding in place, Clyra re-initiated product development and testing for its wound gel and wound cleaner products with experts and well established contract manufacturing companies from industry. It intends to apply for FDA 510(k) approval for these two products to be sold into the advanced wound care industry. While no assurances can be made about the ultimate success any FDA applications once filed, given the forward looking nature of such events, Clyra has retained and engaged a team of experts in the area to guide it through the process. Given the timing of the FDA process, and the requirement for approval before product can be sold, we do not anticipate product sales until 2017. In the interim, we will continue to refine our products, their roll out, marketing, and distribution plans. A U.S. patent was recently issued for these products under development and we intend to continue expanding patent coverage as we refine our products, as available. We are also evaluating potential product designs where our current product designs can be used or slightly modified/ enhanced to create new products for new medial related markets like dental, veterinary medicine, over the counter applications and the like.

***Stock Purchase Agreement – Clyra Medical***

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

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

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

In addition to the $750,000 investment, once Clyra receives FDA Approval for a product, Sanatio has agreed to provide Clyra a $5,000,000 credit facility for operating, warehouse, inventory and costs necessary to rapidly expand sales (“Line of Credit”). Terms of the Line of Credit are to be negotiated in good faith, be commercially reasonable and mutually agreeable to the parties. Should Sanatio fail to provide the Line of Credit, BioLargo has the right to do so under similar terms and conditions offered to Sanatio, and neither Clyra nor any of its shareholders, affiliates, successors or assigns will have any recourse or remedies against Sanatio for failing to provide the line of credit. If either BioLargo or entity not affiliated with Sanatio provides the Line of Credit (either directly, through an affiliate, or third party), Clyra shall issue such lender a warrant to purchase an amount of Clyra common stock equal to 10% of Clyra's capital stock on a fully-diluted basis, at an exercise price equal to the fair market value of Clyra’s common stock on the date of issuance, as determined by its board of directors in good faith.

***Clyra Shareholder Agreement***

BioLargo, Santatio, and other Clyra shareholders entered into an agreement whereby the parties agreed to elect a three-member board of directors, consisting of Clyra’s president, BioLargo’s president, and a Sanatio representative, who shall initially be Mr. Strommen. The shareholders also agreed to restrict the sale of any stock in the company unless all holders of Preferred Shares are allowed to participate in such transaction and the consideration received pursuant to such transaction is allocated among the parties thereto in the manner specified in its articles of incorporation in effect immediately prior to the sale.

***Amendment to Clyra License Agreement***

By agreement dated December 30, 2015, BioLargo and Clyra amended (the “Amendment”) the December 17, 2012 License Agreement (“License Agreement”) by which BioLargo licensed to Clyra the exclusive world-wide right to make, have made, use, sell, offer for sale, and import products for use within the field of human wound care (as defined in the agreement), expandable to include other medical products. The Amendment changes the events that trigger Clyra’s obligation to begin the $50,000 monthly “initial license fee” payments such that no such payments are due until both (i) a Clyra product has received FDA approval and (ii) the company has generated $4,000,000 in gross annual revenue. Additionally, the Amendment updated the licensed patents to include recently issued European patents, confirmed that the Sanatio investment transaction wasn’t a “default” under the License Agreement, and that Sanatio was made an express third party beneficiary of the agreement.

***Investors' Rights Agreement***

BioLargo entered into an "investors' rights agreements" with Sanatio and Strommen whereby BioLargo committed to file a Form S-1 or S-3 registration statement by September 15, 2016 for all registrable securities issued to investors in connection with BioLargo's 2015 Unit Offering, and an additional 1,000,000 shares of BioLargo common stock that may be issued to Sanatio or Strommen in the future. The agreement also provides Sanatio and Strommen "piggy back" registration rights.

Additionally, BioLargo granted to Strommen a "right of first refusal" to purchase its holdings in Clyra should it choose to sell those holdings, and a right of "co-sale" in the event such shares are sold to a third party.

***Strommen Consulting Agreement***

In addition to the foregoing, Clyra entered into a consulting agreement with Beach House Consulting, LLC, through which Jack B. Strommen will be providing consulting services to the company. Mr. Strommen is a founder and leader of PD Instore (www.pdinstore.com), works with some of the world's leading retailers, and has overseen many national ground-breaking marketing rollouts and initiatives. Mr. Strommen will be assisting the company in its sales and marketing activities once it has FDA Approval on a product, at which point the agreement provides that Mr. Strommen is to receive $23,437.50 per month for a period of four years.

**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 in geographic areas of commercial interest, and to protect our trade secrets and proprietary information through laws and contractual arrangements.

Our Chief Science 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 2014 and 2015, we continued improving our technology and creating new uses of our technology through further research and development efforts. During that time, we filed two U.S. patent applications, each comprised of multiple individual claims, and received notice of allowance or were granted five patents by the USPTO. Our 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.

During 2016 we plan to continue to advance our proof of claims, inventions and patent filings.

We incurred $642,923 in 2014 and $684,554 in 2015 in expense related to our 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.

We believe that our 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***

U.S. Patent 8,846,067 issued on September 30, 2014, which encompasses a method of treating a wound or burn on tissue to reduce microbe growth about a wound comprising applying an antimicrobial composition to the wound or burn on tissue using a proprietary stable iodine gel or liquid. This patent covers our technology as used in products being developed by our subsidiary, Clyra Medical Technologies.

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

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

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

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

European Patent 2,081,605 issued on January 23, 2014, titled “Process for Reducing Microbial Content.”

U.S. Patent 8,574,610 issued on November 5, 2013, relating to flowable powder compositions, including our cat litter additive.

U.S. Patent 7,943,158, issued on May 17, 2011, titled “Absorbent systems providing antimicrobial activity”, relating to the reduction of microbial content by providing molecular iodine to stabilized reagents.

U.S. Patent 8,257,749 issued on September 4, 2012, 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.

U.S. Patent 8,226,964 issued on July 24, 2012, 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.

U.S. Patent 8,021,610, issued on September 20, 2011, titled "System providing antimicrobial activity to an environment", relating to the reduction of microbial content in a land mass.

U.S. Patent 7,867,510, issued on January 11, 2011, titled "Material having antimicrobial activity when wet", relating to articles for delivering stable iodine-generating compositions.

U.S. Patent 6,328,929, issued on December 11, 2001, titled "Method of delivering disinfectant in an absorbent substrate", relating to method of delivering disinfectant in an absorbent substrate.

U.S. Patent 6,146,725, issued on November 14, 2000, titled "absorbent composition", relating to an absorbent composition to be used in the transport of specimens of bodily fluids.

***Pending Patent Applications***

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**

BioLargo, Inc. is a corporation organized under the laws of the state of Delaware. Since January 23, 2008, our common stock has been quoted on the OTC Bulletin Board (now called the OTCQB – the OTC Markets "Venture Marketplace") 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. In 2012 we formed Clyra Medical Technologies, Inc. to develop and market medical products based on our technology. As of December 31, 2015, we own 54% of Clyra. In 2013, we formed BioLargo Water USA, Inc., to develop and market our AOS water filter technology. Most recently, in 2014, we formed Canadian corporation BioLargo Water, Inc., as a subsidiary of BioLargo Water USA, Inc.

Our corporate offices are located at 3500 W. Garry Avenue, Santa Ana California 92704. Our telephone number is (949) 643-9540. Our principal corporate website is www.BioLargo.com. We also maintain a blog at www.biolargo.blogspot.com. A number of our products are offered at www.odornomore.com, www.cupridyne.com, www.naturesbestsolution.com, and www.deodorallsport.com. We also maintain www.clyramedical.com, and www.biolargowater.com. The information on our websites and blog is not, and shall not be deemed to be, a part of this Annual Report.

**Executive Officers**

As of December 31, 2015 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 Science Officer

Joseph L. Provenzano: Corporate Secretary and Vice President of Operations

Mr. Provenzano also serves as president of our wholly owned subsidiary, Odor-No-More, Inc. Steven V. Harrison is president of our subsidiary Clyra Medical Technologies, Inc. Mr. Calvert is president of our technology holding company, BioLargo Life Technologies, Inc., and of BioLargo Water USA, Inc. Richard Smith is president of our Canadian subsidiary BioLargo Water, Inc.

**Employees**

As of December 31, 2015, we employed nine full-time employees, three of which are Ph.D.s doing research and development in Canada. We also utilize consultants on an as needed basis who provide certain specified services to us.

**ITEM 1A. RISK FACTORS**

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

***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 the issuance of convertible debt or equity 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 technology. 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, 2014 and 2015 was $1,718,621 and $1,923,909, respectively. These negative cash flows are primarily related to operating losses and, to a lesser extent, fluctuations in working capital items. We continue to use cash in 2016 as it becomes 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. Our ability to continue as a going concern is dependent on our ability to raise capital.

***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. 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 executed or consummated, 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.

***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.

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

Although we are generating limited revenue from the sale of our products, and we expect to generate revenue from new products we are introducing, 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. Our current level of sales is not sufficient to support the financial needs of our business. We cannot predict when or if sales volumes will be sufficiently large to cover our operating expenses. We intend to expand our marketing efforts of our products as financial resources are available, and we intend to continue to expand our research and development efforts. Consequently, we will need to generate significant additional revenue or seek additional financings 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 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 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 technology, any delay in such efforts may jeopardize future research and development of technologies, and commercialization of our 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 technology to market, our ability to generate revenues will be adversely affected.

***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 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.

***Some of the products incorporating our technology will require regulatory approval.***

The products in which our technology may be incorporated have both regulated and non-regulated applications. The regulatory approvals for certain applications may be difficult, impossible, time consuming and or expensive to obtain. While our 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 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 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 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 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 technology could be delayed or curtailed.***

To the extent that we rely on other companies to manufacture the chemicals used in our technology, or sell or market products incorporating our 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 technology could be delayed or curtailed because we may not have sufficient financial resources or capabilities to continue such efforts on our own.

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

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

***If our technology or products incorporating our 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 technology is unproven in its commercial use, and the use of our technology by others is nominal. The commercial success of products incorporating our technology will depend upon the adoption of our 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 technology do not achieve a significant level of market acceptance, demand for our technology itself may not develop as expected and, in such event, it is unlikely that we will become profitable.

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

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

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

We expect our operating expenses will continue to fluctuate significantly in 2016 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 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 science 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.

***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.

***If we suffer negative publicity concerning the safety or efficacy of our products, our sales may be harmed.***

If concerns should arise about the safety or efficacy of any of our products that are marketed, regardless of whether or not such concerns have a basis in generally accepted science or peer-reviewed scientific research, such concerns could adversely affect the market for those products. Similarly, negative publicity could result in an increased number of product liability claims, whether or not those claims are supported by applicable law.

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

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

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

Parties making such claims may be able to obtain injunctive relief that could effectively block the company's ability to further develop or commercialize our current and proposed product candidates in the United States and abroad and could result in the award of substantial damages. Defense of any lawsuit or failure to obtain any such license could

substantially harm the company. Litigation, regardless of outcome, could result in substantial cost to, and a diversion of efforts by, the Company.

***Our patents are expensive to maintain, our patent applications are expensive to prosecute, and 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 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"). We therefore choose to file patent applications only in foreign countries where we believe the commercial opportunities require it, considering our available financial resources and the needs for our technology. This has resulted, and will continue to result, in the irrevocable loss of patent rights in all but a few 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 the United States.***

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

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

***The volatility of certain raw material costs may adversely affect operations and competitive price advantages for products that incorporate our 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. Super Absorbent Polymer (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.

***Our common stock is thinly traded and largely illiquid.***

Our stock is currently quoted on the OTC Markets (OTCQB). Being quoted on the OTCQB 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 OTCQB 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 OTCQB 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.

***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, which we expect for the foreseeable future, 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.

***Because our shares are deemed "penny stocks", new rules make it more difficult to remove restrictive legends.***

Rules put in place by the Financial Industry Regulatory Authority (FINRA) require broker-dealers to perform due diligence before depositing unrestricted common shares of penny stocks, and as such, some broker-dealers, including large national firms, are refusing to deposit unrestricted common shares of penny stocks. As such, it may be more difficult for purchases of shares in our private securities offerings to deposit the shares with broker-dealers and sell those shares on the open market.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our corporate office is located at 3500 W. Garry Avenue, Santa Ana, California 92704. In 2014, we opened an office and laboratory on the University of Alberta Campus at Discovery Place, located at 6020 118th Street, Edmonton, Alberta to facilitate continued collaboration with the University's research teams on the AOS Filter pilot work.

**ITEM 3. LEGAL PROCEEDINGS**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**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 Markets "OTCQB" marketplace (formerly known as the "OTC Bulletin Board") under the trading symbol "BLGO".

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

| | **2014** | | **2015** | |
|---|---|---|---|---|
| | **High** | **Low** | **High** | **Low** |
| First Quarter | $0.54 | $0.24 | $0.46 | $0.27 |
| Second Quarter | $1.09 | $0.36 | $0.39 | $0.26 |
| Third Quarter | $0.83 | $0.45 | $0.72 | $0.30 |
| Fourth Quarter | $0.53 | $0.31 | $0.66 | $0.43 |

The closing bid price for our common stock on March 28, 2016, was $0.34 per share. As of such date, there were approximately [660] 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 Pursuant to 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 (1) | 10,241,086 | $ 0.44 | 1,758,914 |
| Equity compensation plans not approved by security holders (2) | 19,394,972 | 0.40 | n/a |
| Total | 29,636,058 | $ 0.41 | 1,758,914 |

(1) We have one equity compensation plan approved by our stockholders – the 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. It currently allows the issuance of a maximum aggregate 12,000,000 shares.

(2) This includes various issuances to specific individuals either as a conversion of un-paid obligations pursuant to a plan adopted by our Board of Directors, or as part of their agreement for services. Additional detail is available in Note 9 of our financial statements.

**Sales of Unregistered Securities**

The following is a report of the sales of unregistered securities not previously reported in a Quarterly Report on Form 10-Q or in a Current Report on Form 8-K.

***2015 Unit Offering***

During the three-month period ended December 31, 2015, we received $1,036,713 from 14 investors into our 2015 Unit Offering (see Note 5) and issued convertible promissory notes with a maturity date in June 2018, which accrue interest at a rate of 12% per annum. Of these investments, one was accepted at a unit price of $0.25 per share, and thirteen at a unit price of $0.35 per share. Each noteholder, for no additional consideration, received a stock purchase that terminates June 1, 2020. We issued warrants to purchase an aggregate 2,962,037 shares; of that amount, a warrant to purchase 100,000 shares was issued at an exercise price of $0.40 per share, and the remaining warrants were issued at an exercise price of $0.45 per share.

***Clyra Medical Technologies Investment***

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

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

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

***Conversion of 2015 Unit Offering***

During December 2015, pursuant to the terms of the 2015 Unit Offering, two investors elected to convert $64,559 of outstanding note payable into 258,236 shares of our common stock.

***Stock for Service and Interest***

On December 31, 2015, we issued 17,963 shares of our common stock to a company providing ongoing services as payment for services totaling $10,725. The agreement required we issue common stock at a rate of $0.60 per share. The stock price on the grant date was $0.50 per share.

On December 31, 2015, we issued 54,318 shares of our common stock to a company providing ongoing services as payment for services totaling $118,834. The agreement required we issue common stock at a rate of $0.53 per share. The stock price on the grant date was $0.50 per share.

On December 31, 2015, we issued 20,868 shares of our common stock to an officer in lieu of salary totaling $10,043 at a rate of $0.50 per share. The stock price on the grant date was $0.50 per share.

During 2015, we issued 258,236 shares of our common stock to Noteholders in lieu of $64,559 of our note payables pursuant to the terms of the note payable.

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, 2015 unless expressly stated otherwise, and we undertake no duty to update this information.

**Results of Operations—Comparison of the years ended December 31, 2015 and 2014**

**Revenue and Other Income**

***Revenue***

Our revenue from product sales increased 14% in 2015 to $127,582. Our product revenue consists primarily of sales of our Suction Canister Solidifiers to military hospitals, our Specimen Transport Solidifier pouches to the U.S. Defense Logistics Agency, and our Odor-No-More branded animal bedding additive to horse stables and a farming retailer. We also generated sales from the private label of our liquid Stain and Odor Eliminator products. The increase in our sales in 2015 primarily resulted from an increased volume of sales of our Specimen Transport Solidifier pouches to the Defense Logistics Agency pursuant to an "IDPO" awarded in March 2015 (see "Commercial, Household and Personal Care Products" above). The IDPO recently expired and as of the date of this Report we are unable to confirm its renewal.

Sales of our Odor-No-More branded Animal Bedding Additive products continue to show nominal increases over time (approximately $30,000 in 2015 versus $25,000 in 2014). We do not actively market the Odor-No-More branded products, and do not expect a material change in the volume of product sales in 2016.

We have not recognized any licensing revenue during the periods covered by this Report. In February 2014 we entered into a license agreement with Clarion Water, and received a $100,000 deposit towards licensing revenues (see Note 3). The deposit is included on our Balance Sheet as a liability, and will be recognized as revenues upon the earlier of license revenues generated under the license agreement, or June 30, 2016. Subsequent to June 30, 2016, to retain its exclusive rights, Clarion must pay to us minimum license fees of $50,000 per quarter.

***Other Income***

Our wholly owned Canadian subsidiary has been awarded a total of 11 research grants, from the Canadian National Research Institute – Industrial Research Assistance Program (NRC-IRAP) and the National Science and Engineering Research Council of Canada (NSERC). The government grants received are considered reimbursement grants related to costs we incur and therefore are included as Other Income on our income statement. The total value of grants awarded as of the date of this Report is approximately $900,000, although not all of the grant funds are to be paid directly to us nor will all the funds be considered as income in our financial statements. In 2015 we received a total of $99,122 from grant agencies.

***Cost of Goods Sold***

Our cost of goods sold includes costs of raw materials, contract manufacturing, and proportions of salaries and expenses related to the sales and marketing efforts of our products. Because we have not achieved a meaningful product revenue base, and our number of products is increasing, the inclusion of the fixed costs related to the product development and manufacturing increases our cost of goods disproportionately, resulting in high percentage fluctuations.

***Selling, General and Administrative Expense***

Our Selling, General and Administrative (“SG&A”) expenses include both cash and non-cash expense. Our total SG&A increased by $758,403 (27%) in 2015 due primarily to a non-cash expense associated with a five-year extension of the expiration date of stock options issued in lieu of salary and consultant/vendor payables, originally issued in 2010.

The differences from period-to-period in our net cash used in operating activities are dependent on our cash position during the period. If we have sufficient cash reserves from financing activities, we typically pay employees and vendors a larger portion in cash. If we do not have cash during the period, we issue common stock or options to purchase common stock to compensate employees and vendors the remainder of what they are owed. We do so at the end of the quarter. When we issue options, we do so pursuant to a plan adopted by our board of directors that allows us to set a price based on the trading price of our common stock. The options we issue typically have a fair value greater than the cash owed, and that fact increases our non-cash expense.

The largest components of our SG&A expenses included:

| Category | 2014 | 2015 |
|---|---|---|
| Salaries and payroll-related expenses | $ 630,199 | $ 669,515 |
| Consulting expenses | $ 578,530 | $ 1,041,896 |
| Professional fees | $ 415,794 | $ 725,762 |
| Investor relations fees | $ 401,185 | $ 135,926 |

The increases in consulting and professional expenses is primarily related to the five-year extension of options issued to our consultant and professional vendors, rather than an increase in consultant or professional activity. The decrease in investor relations fees is primarily attributable to the cessation of an investors relation program that had continued throughout 2014.

***Research and Development***

Research and development expenses were $684,554 for the year ended December 31, 2015, compared to $642,923 for the year ended December 31, 2014, an increase of $41,631. The increase is attributable to the increased level of research activities at our research facility in Canada.

***Interest expense***

Our interest expense significantly increased in the fiscal year ended December 31, 2015 (from $348,153 in 2014 to $994,671 in 2015). The increase results from a fundamental change in our financing activities – beginning in December 2014, and continuing with our 2015 Unit Offering, we began issuing convertible debt to investors, rather than our common stock. Thus, at September 30, 2014, we had only one note payable, in the face amount of $50,000, accumulating interest. In contrast, at December 31, 2015, our balance sheet includes notes payable in the aggregate amount of $3,245,972. These notes were issued with stock purchase warrants as “units”, and are convertible at our option into our common stock (see Part II, Item 2, “2015 Unit Offering”, “Conversion of Notes”, and “Summer 2014 Offering”). As a result of this fundamental change, we expect our interest expense to increase in 2016 as compared with 2015, due to the significant increase in our end-of-year principal balance of note payables.

In addition to interest accrued and paid on convertible promissory notes, the relative fair value of the warrants and the intrinsic value of the beneficial conversion feature sold with the convertible notes payable resulted in a full discount on the proceeds from the convertible notes. This discount is being amortized as interest expense over the term of the convertible notes. We expect our interest expense to continue to increase as we incur interest on our outstanding

convertible note payables and the amortization of the related discount, and as we continue to raise money through the 2015 Unit Offering.

***Net Loss***

Net loss for the year ended December 31, 2015 was $5,077,030, a loss of $0.06 per share, compared to a net loss for the year ended December 31, 2014 of $3,739,567, a loss of $0.05 per share. The increase in net loss per share for the year ended December 31, 2015 is primarily attributable to the increase in non-cash expenses recorded in Selling, General and Administrative expenses from the issuance of stock and stock options in exchange for services and accrued and unpaid payables and the retention of an investor relations firm, offset by the increase in number of shares outstanding. As well, we have continued to spend funds related to our activity in developing the AOS filter.

***Liquidity and Capital Resources***

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of our business. As reflected in the accompanying financial statements, at December 31, 2015, we had working capital of $1,431,164, current assets of $1,891,147, long-term (convertible) debt obligations of $3,245,972, a discount on convertible note payable of $2,937,019, and an accumulated stockholders' deficit of $84,075,695. The foregoing factors raise substantial doubt about our ability to continue as a going concern. Ultimately, our ability to continue as a going concern is dependent upon our ability to attract significant new sources of capital, attain a reasonable threshold of operating efficiencies and achieve profitable operations by licensing or otherwise commercializing products incorporating our technology. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

We have been, and anticipate that we will continue to be, limited in terms of our capital resources. Our total cash and cash equivalents were $1,763,114 at December 31, 2015. In the year ended December 31, 2015, we recorded revenues of $127,582, received cash from government reimbursement grants for our Canadian research programs totaling $99,122, and had $324,983 of outstanding accounts payable and accrued expenses.

We generally have not had enough cash or sources of capital to fully fund operations or accounts payable and expenses as they arise. The short-term demands on our liquidity consist of our obligations to pay our employees, consultants, and for other ongoing operational obligations, including research and development activities in Canada. We typically pay only a portion of these obligations in cash, and the remainder by the issuance of common stock or options pursuant to the accounts payable conversion plan approved by our board of directors. We will be required to raise substantial additional capital to expand our operations, including without limitation, hiring additional personnel, additional scientific and third-party testing, costs associated with obtaining regulatory approvals and filing additional patent applications to protect our intellectual property, and possible strategic acquisitions or alliances, as well as to meet our liabilities as they become due for the next 12 months. We have been, and will continue to be, required to financially support the operations our subsidiaries, none of which are operating at a positive cash flow. Only one subsidiary, Clyra, has financing in place to fund operations for the immediate future.

As of December 31, 2015, we had $3,245,972 principal amount outstanding on convertible promissory notes. These notes mature June 1, 2018, and we have the option to pay those notes by the issuance of our common stock upon maturity. We were able to decrease short-term demands on liquidity from our one-year notes due in December 2015 and January 2016 by converting them to new promissory notes on the same terms as the notes issued in our 2015 Unit Offering (all due on June 1, 2018.

In addition to the private securities offerings discussed above, we are continuing to explore numerous alternatives for our current and longer-term financial requirements, including additional raises of capital from investors in the form of

convertible debt or equity. There can be no assurance that we will be able to raise any additional capital. No commitments are in place as of the date of the filing of this report for any such additional financings. Moreover, in light of the current unfavorable economic conditions, we do not believe that any such financing is likely to be in place in the immediate future.

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

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

**Critical Accounting Policies**

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

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

***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 Acquired in a Non-Monetary Transaction***

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 or over the term of the vesting period in accordance with Auditing Standards 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.

***Fair Value Measurement***

Generally accepted accounting principles establishes a hierarchy to prioritize the inputs of valuation techniques used to measure fair value. The hierarchy gives the highest ranking to the fair values determined by using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the assets based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's assumptions about inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The Company has determined the appropriate level of the hierarchy and applied it to its financial assets and liabilities.

Management believes the carrying amounts of the Company's financial instruments as of December 31, 2014 and 2015 approximate their respective fair values because of the short-term nature of these instruments. Such instruments consist of cash, accounts receivable, prepaid assets, accounts payable, convertible notes, and other assets and liabilities.

**Recent Accounting Pronouncements**

See Note 2, Summary of Significant Accounting Policies – Recent Accounting Pronouncements, for the applicable accounting pronouncements affecting the Company.

**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, 2015 and 2014 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.

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 the 2013 Framework —Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), 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, 2015.

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 independent 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 quarter ended December 31, 2015 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 2016 Annual Meeting of Stockholders, currently scheduled to be held on June 20, 2016 (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.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

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

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

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

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

| Exhibit No. | Description of Exhibit |
|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation filed March 16, 2007 (1) |
| 3.2 | Certificate of Designations creating Series A Preferred Stock (2) |
| 3.3 | Bylaws, as amended and restated (3) |
| 4.1 | BioLargo, Inc. 2007 Equity Incentive Plan (4) |
| 4.2 | Amendment No. 1 to BioLargo 2007 Equity Incentive Plan (5) |
| 4.3 | Form of Warrant issued in the Winter 2012 Offering (6) |
| 4.4 | Non-Qualified Stock Option agreement dated April 9, 2012 between the Company and its Chief Financial Officer Charles K. Dargan II. (7) |
| 4.5 | Form of Warrant issued in Summer 2012 Offering (8) |
| 4.6 | Form of Clyra Warrant issued in Clyra Winter 2012 Offering (22) |
| 4.7 | Form of BioLargo Warrant issued in Clyra Winter 2012 Offering (22) |
| 4.8 | Amendment to Szolomayer stock purchase option (9) |
| 4.9 | Form of Warrant issued in Summer 2013 Offering (22) |
| 4.10 | Form of Warrant issued in Winter 2013 Offering (22) |
| 4.11 | Non-Qualified Stock Option agreement dated July 17, 2013 between the Company and its Chief Financial Officer Charles K. Dargan II. (10) |
| 4.12 | Form of Options issued (outside of Equity Incentive Plan) (22) |
| 4.13 | Line of Credit (22) |
| 4.14 | Form of Warrants issued to other investors (22) |
| 4.15 | Form of Clyra Warrant issued in Clyra Spring 2014 Offering (22) |
| 4.16 | Form of BioLargo Warrant issued in Clyra Spring 2014 Offering (22) |
| 4.17 | Option issued to Charles K. Dargan dated June 23, 2014 (11) |
| 4.18 | Form of Warrant issued in Summer 2014 Offering (12) |
| 4.19 | Form of Note issued in December 2014/January 2015 (22) |
| 4.20 | Form of Warrant issued to December 2014/January 2015 noteholders (22) |
| 4.21 | Form of Convertible Promissory Note issued in 2015 Unit Offering (22) |
| 4.22 | Form of Series A Stock Purchase Warrant issued in 2015 Unit Offering (22) |
| 4.23 | Amended and Restated Articles of Incorporation of Clyra Medical Technologies, Inc. (23) |
| 4.24 | BioLargo, Inc. Investors' Rights Agreement dated December 30, 2015, as a shareholder of Clyra Medical Technologies, Inc. (23) |
| 4.25 | Option to purchase common stock issued to Charles K. Dargan dated September29, 2015. (24) |
| 10.1† | Employment Agreement dated as of April 30, 2007 between the Company and Dennis P. Calvert (1) |
| 10.2† | Employment Agreement dated as of April 30, 2007 between the Company and Kenneth R. Code (1) |
| 10.3† | Amendment to the April 30, 2007 Employment Agreement between the Company and Dennis P. Calvert (9) |
| 10.4† | Amendment to the April 30, 2007 Employment Agreement between the Company and Kenneth R. Code (9) |
| 10.5† | Employment Agreement dated as of January 1, 2008 between BioLargo, Inc. and Joseph L. Provenzano (13) |

| | |
|---|---|
| 10.6 | Consulting Agreement dated as of January 1, 2008 between BioLargo, Inc. and Robert C. Szolomayer (13) |
| 10.7† | Engagement Agreement dated February 1, 2008 between BioLargo, Inc. and Charles K. Dargan, II (14) |
| 10.8† | Engagement Extension Agreement dated as of February 1, 2010 between BioLargo, Inc. and Charles K. Dargan, II. (15) |
| 10.9† | Engagement Extension Agreement dated as of February 1, 2011 between BioLargo, Inc. and Charles K. Dargan, II. (16) |
| 10.10† | Engagement extension agreement with Charles K. Dargan dated July 17, 2013 (10) |
| 10.11 | Agreement between BioLargo, Inc., and its subsidiaries, and Central Garden & Pet Company (17) |
| 10.12 | Consulting Agreement dated as of August 12, 2011 between BioLargo, Inc., and Steven V. Harrison (18) |
| 10.13 | Joint Venture Agreement with Peter Holdings Ltd. (22) |
| 10.14 | Commercial Lease Agreement for 3500 Garry Avenue (19) |
| 10.15† | Engagement extension agreement with Charles K. Dargan dated June 23, 2014 (20) |
| 10.16 | License Agreement with Insultech Manufacturing LLC dba Clarion Water (21) |
| 10.17 | License Agreement between BioLargo, Inc., and Clyra Medical Technologies, Inc., dated December 17, 2012 (23) |
| 10.18 | Amendment to License Agreement between BioLargo, Inc., and Clyra Medical Technologies, Inc., dated December 30, 2015 (23) |
| 10.19† | Engagement Extension Agreement dated as of September 29, 2015 between BioLargo, Inc. and CFO 911 Corporation. (24) |
| 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.

* Filed herewith.
† Management contract or compensatory plan, contract or arrangement

(1) Incorporated herein by reference from the Form 10-KSB filed by the Company for the year ended December 31, 2007.
(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 10-KSB filed by the Company for the year ended December 31, 2002.
(4) Incorporated herein by reference from the Form 10-QSB for the three-month period ended September 30, 2007.
(5) Incorporated herein by reference from the Def 14C filed by the Company on May 2, 2011.
(6) Incorporated herein by reference from the Form 10-K filed by the Company for the year ended December 31, 2012
(7) Incorporated herein by reference from the Form 8-K filed by the Company on April 10, 2012.
(8) Incorporated herein by reference from the Form 10-Q for the three-month period ended September 30, 2012.
(9) Incorporated herein by reference from the Form 8-K filed by the Company on December 31, 2012.
(10) Incorporated herein by reference from the Form 8-K filed by the Company on July 18, 2013.
(11) Incorporated herein by reference from the Form 8-K filed by the Company on June 25, 2014
(12) Incorporated herein by reference from the Form 10-Q filed by the Company on August 15, 2014.
(13) Incorporated herein by reference from the Form 8-K filed by the Company on January 16, 2008.
(14) Incorporated herein by reference from the Form 8-K filed by the Company on February 4, 2008.
(15) Incorporated herein by reference from the Form 8-K filed by the Company on February 5, 2010.
(16) Incorporated herein by reference from the Form 8-K filed by the Company on March 23, 2011
(17) Incorporated herein by reference from the Form 8-K filed by the Company on March 28, 2011.
(18) Incorporated herein by reference from the Form 8-K filed by the Company on August 15, 2011.
(19) Incorporated herein by reference from the Form 8-K filed by the Company on May 2, 2013.
(20) Incorporated herein by reference from the Form 8-K filed by the Company on June 25, 2014
(21) Incorporated herein by reference from the Form 10-Q filed by the Company on August 15, 2014.
(22) Incorporated herein by reference from the Form 10-K filed by the Company for the year ended December 31, 2015.
(23) Incorporated herein by reference from the Form 8-K filed by the Company on January 6, 2016.
(24) Incorporated herein by reference from the Form 8-K filed by the Company on October 2, 2015.

**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: March 30, 2016 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 | | March 30, 2016 |

| | | |
|---|---|---|
| **Dennis P. Calvert** | Chairman of the Board, Chief Executive Officer and President | |
| /s/ Charles K. Dargan II<br>**Charles K. Dargan II** | Chief Financial Officer (principal financial officer and principal accounting officer) | March 30, 2016 |
| /s/ Kenneth R. Code<br>**Kenneth R. Code** | Chief Science Officer and Director | March 30, 2016 |
| /s/ Joseph L. Provenzano<br>**Joseph L. Provenzano** | Executive Vice President, Corporate Secretary and Director | March 30, 2016 |
| /s/ Gary A. Cox<br>**Gary A. Cox** | Director | March 30, 2016 |
| /s/ Dennis E. Marshall<br>**Dennis E. Marshall** | Director | March 30, 2016 |
| /s/ Kent C. Roberts III<br>**Kent C. Roberts III** | Director | March 30, 2016 |
| /s/John S. Runyan<br>**John S. Runyan** | Director | March 30, 2016 |

**INDEX TO FINANCIAL STATEMENTS**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders

BioLargo, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of BioLargo, Inc. and Subsidiaries (the "Company") as of December 31, 2014 and 2015, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years ended December 31, 2014 and 2015. 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 audits 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 audits 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. and Subsidiaries as of December 31, 2014 and 2015, and the consolidated results of its operations and its cash flows for each of the years ended December 31, 2014 and 2015, 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. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/S/HASKELL & WHITE LLLP

March 30, 2016

Irvine, California

**BIOLARGO, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**AS OF DECEMBER 31, 2014 AND DECEMBER 31, 2015**

| | December 31, 2014 | December 31, 2015 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $154,460 | $1,763,114 |
| Accounts receivable, net | 5,617 | 41,431 |
| Inventory | 25,514 | 37,435 |
| Prepaid expense | 45,000 | 49,167 |
| Total current assets | 230,591 | 1,891,147 |
| Other assets, net of amortization | 30,077 | 19,157 |
| TOTAL ASSETS | $260,668 | $1,910,304 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)** | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | $494,938 | $324,983 |
| Notes payable, current portion (Note 5) | 250,000 | — |
| Discount on convertible note payable (Note 5) | (192,000) | — |
| Deposits | 100,000 | 135,000 |
| Total current liabilities | 652,938 | 459,983 |
| LONG-TERM LIABILITIES | | |
| Convertible notes payable | — | 3,245,972 |
| Discount on convertible notes payable | — | (2,937,019) |
| Total long-term liabilities | — | 308,953 |
| TOTAL LIABILITIES | 652,938 | 768,936 |
| COMMITMENTS, CONTINGENCIES (Notes 10 and 11) | | |
| STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Convertible Preferred Series A, $.00067 Par Value, 50,000,000 Shares Authorized, -0- Shares Issued and Outstanding, at December 31, 2014 and December 31, 2015, respectively. | — | — |
| Common stock, $.00067 Par Value, 200,000,000 Shares Authorized, 82,909,300 and 85,803,467 Shares Issued, at December 31, 2014 and December 31, 2015, respectively. | 55,293 | 57,236 |
| Additional paid-in capital | 78,511,529 | 84,410,821 |
| Accumulated deficit | (79,019,719) | (84,075,695) |

| | | |
|---|---|---|
| Accumulated other comprehensive loss | — | (40,567) |
| Non-controlling interest (Note 12) | 60,627 | 789,573 |
| Total stockholders' equity (deficit) | (392,270) | 1,141,368 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | $260,668 | $1,910,304 |

See accompanying notes to consolidated financial statements and report of independent registered public accounting firm

**BIOLARGO, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2015**

| | 2014 | 2015 |
|---|---|---|
| Product revenue | $ 111,547 | $ 127,582 |
| Cost of goods sold | 55,999 | 62,067 |
| Gross margin | 55,548 | 65,515 |
| | | |
| Costs and expenses | | |
| Selling, general and administrative | 2,793,119 | 3,551,522 |
| Research and development | 642,923 | 684,554 |
| Amortization | 10,920 | 10,920 |
| | | |
| Total costs and expenses | 3,446,962 | 4,246,996 |
| | | |
| Loss from operations | (3,391,414 ) | (4,181,481 ) |
| | | |
| Other income (expense) | | |
| Grant revenue | — | 99,122 |
| Interest expense, net | (348,153 ) | (994,671 ) |
| Net other income (expense) | (348,153 ) | (895,549 ) |
| | | |
| Net loss | (3,739,567 ) | (5,077,030 ) |
| Net loss attributable to non-controlling interest | (47,451 ) | (21,054 ) |
| Net loss attributable to shareholders | $ (3,692,116 ) | $ (5,055,976 ) |
| | | |
| Loss per common share attributable to common shareholders – basic and diluted | $ (0.05 ) | $ (0.06 ) |
| Weighted average common share equivalents outstanding | 80,017,035 | 84,112,356 |
| | | |
| Comprehensive loss attributable to shareholders | | |
| Net loss | (3,739,567 ) | $ (5,077,030 ) |
| Foreign translation adjustment | — | (40,567 ) |
| Comprehensive loss | (3,739,567 ) | (5,117,597 ) |

See accompanying notes to consolidated financial statements and report of independent registered public accounting firm

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**BIOLARGO, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)**
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2015**

| | Common Stock | | Additional | | Accumulated Other | | |
|---|---|---|---|---|---|---|---|
| | Number of Shares | Par Value $.00067 | Paid-In Capital | Accumulated Deficit | Comprehensive Loss | Noncontrolling Interest | Total |
| BALANCE DECEMBER 31, 2013 | 75,123,014 | $50,069 | $74,849,492 | $(75,327,603) | | $(136,922) | $(564,964) |
| Issuance of stock for cash received as part of Summer 2013 PPM @ $0.25 | 3,328,400 | 2,234 | 795,266 | — | | — | 797,500 |
| Fees paid for Summer 2013 PPM | — | — | (10,000) | — | | — | (10,000) |
| Conversion of note payables | 1,360,000 | 911 | 583,889 | — | | — | 584,800 |
| Issuance of stock for cash received as part of Summer 2014 PPM @ $0.40 | 728,264 | 489 | 286,511 | — | | — | 287,000 |
| Fees paid for Summer 2014 PPM | — | — | (20,000) | — | | — | (20,000) |
| Cash received from Clyra Winter 2014 PPM | — | — | — | — | | 245,000 | 245,000 |
| Issuance of stock for exercise of Winter 2012 Warrant @ $0.50 | 492,860 | 329 | 196,815 | — | | — | 197,144 |
| Issuance of stock for exercise of Summer 2013 Warrant $0.30 | 280,000 | 188 | 83,812 | — | | — | 84,000 |
| Issuance of stock in exchange for | 300,000 | 201 | (201) | — | | — | — |

| | | | | | | |
|---|---|---|---|---|---|---|
| Clyra shares | | | | | | |
| Issuance of stock for option conversion | 41,875 | 28 | (28) | — | — | — |
| Issuance of stock for services to consultants | 590,476 | 397 | 379,834 | — | — | 380,231 |
| Issuance of options for accrued and unpaid obligations to vendors | — | — | 388,377 | — | — | 388,377 |
| Issuance of stock for accrued and unpaid obligations to officers | 664,411 | 447 | 294,351 | — | — | 294,798 |
| Issuance of options to board of directors | — | — | 483,411 | — | — | 483,411 |
| Fair Value of Warrant and conversion feature of our convertible notes | — | — | 200,000 | — | — | 200,000 |
| Net loss for the year ended December 31, 2014 | — | — | — | (3,692,116) | (47,451) | (3,739,567) |
| BALANCE DECEMBER 31, 2014 | 82,909,300 | 55,293 | 78,511,529 | (79,019,719) | 60,627 | (392,270) |
| Issuance of stock in exchange of Clyra shares | 1,640,000 | 1,099 | (1,099) | — | — | — |
| Conversion of equity to notes payable | (530,000) | (355) | (211,662) | — | — | (212,017) |
| Issuance of common stock to vendors and interest to Noteholders | 631,643 | 530 | 359,834 | — | — | 360,364 |
| Issuance of common stock to convert 2015 Unit Offering | 258,236 | 173 | 64,386 | — | — | 64,559 |
| Fair value of options issued for services and for accrued and unpaid obligations | — | — | 1,096,968 | — | — | 1,096,968 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| to vendors | | | | | | | |
| Issuance of stock to satisfy accrued and unpaid obligations to officers | 738,837 | 496 | 309,479 | — | | — | 309,975 |
| Fair value of options issued to board of directors and officers | — | — | 734,345 | — | | — | 734,345 |
| Fair value of warrants and conversion feature issued as discount on convertible notes payable | — | — | 3,474,721 | — | | — | 3,474,721 |
| Fair value of warrants issued as fees for convertible notes payable | — | — | 72,320 | — | | — | 72,320 |
| Investment into Clyra Medical Technolgies (Note 12) | — | — | — | — | | 750,000 | 750,000 |
| Net loss for the year ended December 31, 2015 | — | — | | (5,055,976 ) | | (21,054 ) | (5,077,030 ) |
| Foreign currency translation adjustment | — | — | — | | (40,567 ) | | (40,567 ) |
| BALANCE DECEMBER 31, 2015 | 85,648,015 | $57,236 | $84,410,821 | $(84,075,695 ) | $(40,567 ) | $789,573 | $1,141,368 |

See accompanying notes to consolidated financial statements and report of independent registered public accounting firm

**BIOLARGO, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR YEARS ENDED DECEMBER 31, 2014 AND 2015**

| | 2014 | 2015 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Loss | $(3,739,567) | $(5,077,030) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Non-cash expense related to options issued to officers and board of Directors | 483,411 | 734,345 |
| Non-cash expense related to the issuance of stock for services to officers and board of directors | 269,616 | 309,975 |
| Non-cash expense related to options and warrants issued to consultants | 388,377 | 1,096,968 |
| Non-cash expense related to stock issued to consultants | 663,735 | 360,364 |
| Non-cash interest expense related to the amortization of the fair value of warrants issued in conjunction with our convertible notes | 8,000 | 808,572 |
| Amortization expense | 10,920 | 10,920 |
| Increase (decrease) in cash from change in: | | |
| Accounts receivable | (1,688) | (35,814) |
| Inventory | 4,316 | (11,921) |
| Prepaid asset | (45,000) | (4,167) |
| Accounts payable and accrued expenses | 139,259 | (110,554) |
| Deposits | 100,000 | 35,000 |
| Net cash used in operating activities | (1,718,621) | (1,883,342) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net proceeds from the sale of stock and notes | 1,335,644 | 2,804,713 |
| Proceeds from the sale of stock in majority-owned subsidiary | 245,000 | 750,000 |
| Proceeds from note payables | 200,000 | — |
| Payments of financing costs | | (22,150) |
| Net cash provided by financing activities | 1,780,644 | 3,532,563 |
| EFFECT OF FOREIGN CURRENCY TRANSLATION | — | (40,567) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 62,023 | 1,608,654 |
| CASH AND CASH EQUIVALENTS — BEGINNING | 92,437 | 154,460 |
| CASH AND CASH EQUIVALENTS — ENDING | $154,460 | $1,763,114 |
| SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION | | |
| Cash Paid During the Period for: | | |
| Interest | $6,733 | $9,855 |

| | | |
|---|---|---|
| State taxes | $2,400 | $4,000 |
| SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING AND INVESTING ACTIVITIES: | | |
| Convertible noteholders accrued and unpaid interest | $584,400 | $— |
| Fair value of warrants issued as fees as part of our private security offerings | $34,600 | $72,320 |
| Fair value of warrants related to convertible note offerings | $200,000 | $3,474,721 |
| Issuance of common stock to convert 2015 Unit Offering | — | $64,559 |
| Conversion of Summer 2014 into 2015 Unit Offering | — | $212,017 |

See accompanying notes to consolidated financial statements and report of independent registered public accounting firm

**BIOLARGO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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. For the year ended December 31, 2015, we had a net loss of $5,077,030, and, at December 31, 2015, we had working capital of $1,431,164, current assets of $1,891,147, an accumulated deficit of $84,075,695, and a net stockholders' deficiency. 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. These consolidated 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 $1,763,114 at December 31, 2015. We generated revenues of $127,582 in the year ended December 31, 2015, 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, 2015, we had $3,245,972 principal amount outstanding due on convertible notes payable (see Note 5) that are payable in stock at the June 1, 2018 maturity date, and $324,983 of outstanding accounts payable (see Note 10).

During the year ended December 31, 2015, we received $2,804,713 net proceeds from our private securities offerings. (See Note 4.) We also received $750,000 from the sale of stock in our subsidiary Clyra Medical Technologies, Inc.

("Clyra") (See Note 12.).

In the opinion of management, the accompanying balance sheets and related statements of operations, cash flows, and stockholders' equity (deficit) 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.

***Organization***

We were initially organized under the laws of the State of Florida in 1989, and in 1991 merged into a Delaware corporation. We operate four wholly-owned subsidiaries: BioLargo Life Technologies, Inc., organized under the laws of the State of California in 2006, Odor-No-More, Inc., organized under the laws of the State of California in 2009, BioLargo Water USA, Inc., organized under the laws of the State of California in 2013 and BioLargo Water, Inc., organized under the laws of Canada in 2014. Additionally, we are majority owner of Clyra Medical Technologies, Inc., organized under the laws of the State of California in 2012 (see Note 12).

**BIOLARGO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Business Overview***

We feature three patent protected platform technologies with diverse product opportunities across multiple industries – the AOS Filter, CupriDyne, and Isan. Each features the use of the all-natural iodine molecule. While they all use iodine, they are quite different in terms of the methods by which they exploit the use of iodine, the form and composition of iodine used, and therefore their function and value proposition can be quite different for each commercial application.

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

***Principles of Consolidation***

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

***Foreign currency***

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

***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, 2015, our cash deposits were greater 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, we do not anticipate non-performance.

***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 $3,818 at December 31, 2014 and $0 at December 31, 2015.

***Inventory***

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

| | **December 31, 2014** | **December 31, 2015** |
|---|---|---|
| Raw materials | $ 18,816 | $ 12,162 |
| Finished goods | 6,698 | 25,273 |
| | $ 25,514 | $ 37,435 |

**BIOLARGO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Other Assets***

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

For each of the years ended December 31, 2014 and 2015 we recorded amortization expense totaling $10,920.

Long-lived and definite lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows from the use of the asset and its eventual disposition is less than the carrying amount of the asset, then an impairment loss is recognized. The impairment loss is measured based on the fair value of the asset. Any resulting impairment is recorded as a reduction in the carrying value of the related asset in excess of fair value and a charge to operating results. For the years ended December 31, 2014 and 2015, management determined that there was no impairment of its long-lived assets.

***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, 2014 and 2015, 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, debt transactions, allowance for accounts receivable, asset depreciation and amortization, and taxes, among others.

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

***Share-based Payments***

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

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

During the years ended December 31, 2014 and 2015, we recorded an aggregate $871,788 and $1,831,313 in selling general and administrative expense related to options issued as part of our 2007 Equity Incentive Plan and outside of our 2007 Equity Incentive Plan (see Note 8).

During the years ended December 31, 2014 and 2015, we issued an aggregate 664,411 and 738,837 shares of our common stock to our officers in lieu of accrued and unpaid compensation and unreimbursed expenses totaling $294,798 and $309,975, respectively.

**BIOLARGO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

During the years ended December 31, 2014 and 2015, we issued an aggregate 590,476 and 631,643 shares of our common stock to third party vendors in lieu of accrued and unpaid obligations totaling $380,231 and $360,364, respectively.

During December 2015, we issued an aggregated 258,236 shares of our common stock to 2015 Unit Offering holders in lieu of $64,559 note payable principal balance.

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

***Non-Cash Transactions***

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

***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 generally accepted accounting principles (“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***

Management believes the carrying amounts of the Company's financial instruments as of December 31, 2014 and 2015 approximate their respective fair values because of the short-term nature of these instruments. Such instruments consist of cash, accounts receivable, prepaid assets, accounts payable, convertible notes, and other assets and liabilities.

**BIOLARGO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Government Grants***

We have been awarded grants from the Canadian National Research Institute – Industrial Research Assistance Program (NRC-IRAP) and the National Science and Engineering Research Council of Canada (NSERC). The government grants received are considered other income and are included in our consolidated statements of operations. We received our first grant in 2015 and have been awarded eleven grants in the aggregate amount of approximately $778,000. Some of the funds from these grants are given directly to third parties (such as the University of Alberta) to support research on our technology. The grants have terms generally ranging between six and eighteen months and support much of the research budget, but not all of the related costs. This cooperative research allows us to utilize (i) a depth of resources and talent to accomplish highly skilled work, (ii) financial aid to support research and development costs, (iii) independent and credible validation of our technical claims.

The grants provide for (i) recurring monthly amounts and (ii) reimbursement of costs for research talent for which we invoice to request payment and (iii) ancillary cost reimbursement for research talent travel related costs. All awarded grants have specific requirements on how the money is spent, typically to employ researchers. None of the funds may be used for general administrative expenses or overhead in the United States. These grants have substantially increased our level of research and development activities in Canada and the development of our AOS filter. We continue to apply for Canadian government and agency grants to fund research and development activities. Not all of our grant applications have been awarded, and no assurance can be made that any pending grant application, or any future grant applications, will be awarded.

***Recent Accounting Pronouncements***

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently evaluating the impact of the pending adoption of the ASU on its consolidated financial statements.

In February 2015, the FASB issued Accounting Standards Update No. 2015-02 (ASU 2015-02), Consolidation (Topic 810). ASU 2015-02 changes the guidance with respect to the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. All legal entities are subject to reevaluation under the revised consolidation mode. ASU 2015-02 affects the following areas: (1) Limited partnerships and similar legal entities. (2) Evaluating fees paid to a decision maker or a service provider as a variable interest. (3) The effect of fee arrangements on the primary beneficiary determination. (4) The effect of related parties on the primary beneficiary determination. (5) Certain investment funds. ASU 2015-02 is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the guidance in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. A reporting entity may apply the amendments in this guidance using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. A reporting entity also may apply the amendments retrospectively. The adoption of ASU 2015-02 is not expected to have any impact on the Company’s financial statement presentation or disclosures.

**BIOLARGO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 creates a new, principle-based revenue recognition framework that will affect all revenue-generating activities. In addition to superseding and replacing nearly all existing revenue recognition guidance under U.S. GAAP, including industry-specific guidance, the new standard:

- changes the basis for deciding when revenue is recognized over time or at a point in time;
- provides new guidance on specific aspects of revenue recognition; and
- expands and improves disclosures about revenue.

Entities are required to apply the standard for annual periods beginning after December 15, 2018, and for interim periods therein. The standard permits the use of either the retrospective method, where prior period results are reflected on a comparable basis, or cumulative effect method. Management is currently evaluating the effect of this pronouncement on its financial reporting.

**Note 3. Deposits**

***Royalty Revenue***

In 2012, we executed a joint venture agreement with Peter Holdings Pty. Ltd., the principal developer of the Isan System, whereby we jointly purchased the intellectual property associated with the Isan System, and agreed to share any royalties from any licensing revenue generated from the Isan System on an equal 50/50 basis.

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

**BIOLARGO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Investor Deposit***

On December 18, 2015, we received $35,000 from a potential investor in our 2015 Unit Offering (see Note 4). We did not receive a subscription agreement from that individual until after December 31, 2015, and thus we recorded this amount as a deposit until we received the executed documents.

**Note 4. Equity Offerings**

***Summer 2014 Private Securities Offering***

Pursuant to a private offering of our common stock at a price of $0.40 per share ("Summer 2014 Offering") that commenced on June 25, 2014 through December 31, 2014, we sold 717,500 shares of our common stock to ten accredited investors, and received gross and net proceeds of $287,000 and $267,000, respectively. Fees related to this offering consisted of $20,000 cash payments and the issuance of 10,764 shares of our common stock at an exercise price of $0.40 per share.

Each purchaser of stock will receive, for no additional consideration, a stock purchase warrant which entitles the holder to purchase a number of additional shares of our common stock equal to the number of shares originally purchased. (See Note 7.)

***Clyra Spring 2014 Private Securities Offering***

On February 1, 2014, our subsidiary Clyra (see Note 11) began a private securities offering, selling up to 1,000 shares of its common stock at $1,000 per share. From inception of the offering, Clyra sold 245 shares of its common stock to

five accredited investors and received $245,000 gross and net proceeds from the sale.

Each purchaser of stock received, for no additional consideration, (i) a stock purchase warrant entitling the holder to purchase the same number of shares of Clyra common stock as purchased in the offering for $1,833.33 per share until July 30, 2015, and (ii) a warrant issued by BioLargo that allows the holder to exchange one share of Clyra common stock for 4,000 shares of BioLargo common stock. (See Note 7.)

**BIOLARGO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All of these offerings and sales were made in reliance on the exemption from registration contained in Section4(2) of the Securities Exchange Act and/or Regulation D promulgated thereunder as not involving a public offering of securities.

**Note 5. Notes and Convertible Notes Payable**

As of December 31, 2015, we have outstanding a total of $3,245,972 unsecured convertible promissory notes with a maturity date of June 1, 2018, which accrue interest at a rate of 12% per annum. We may pay these notes at maturity by the issuance of common stock at the rate set forth in the note. These notes include those issued to investors in the 2015 Unit Offering (see “2015 Unit Offering” immediately below), and notes that were converted into 2015 Unit Offering notes (see Note 6).

For the years ended December 31, 2014 and 2015, we recorded $348,153 and $994,671 of interest expense related to our line of credit, convertible notes payable and amortization of discount on convertible notes payable.

***2015 Unit Offering***

On January 15, 2015, we commenced a private securities offering of “units”, each Unit consisting of a convertible promissory note and Series A stock purchase warrant (“2015 Unit Offering”). The price and availability of the Units are set forth in a “Pricing Supplement” issued from time-to-time, and priced up to a 30% discount to the market price of the Company’s common stock. The Offering is subject to an over-allotment of 20%, or an additional $1,000,000 in Units, for an aggregate total of $6,000,000, and shall be known as the Company’s “2015 Unit Offering.” The Company has the right to register the common shares underlying the notes and warrants (“Shares”) with the Securities and Exchange Commission, and the obligation to register the Shares in the event we are successful in raising $3,000,000 of gross proceeds.

Purchasers of the Units will receive an unsecured convertible promissory note bearing interest at the rate of 12% per annum on the amount invested. Any interest due will be paid quarterly in arrears in cash or shares of common stock. If paid by the issuance of common stock, interest is paid at a conversion price equal to the average closing price of the Company's common stock over the 20 trading days prior to the interest payment due date. The principal amount of the note may be paid by the issuance of shares of common stock, or cash, upon maturity at the Company's election. When paid in shares, the number of shares to be issued shall be calculated by dividing the principal amount invested by the Unit price, as it is established at the time of the original investment by the applicable Pricing Supplement. The notes may be converted at any time by the investor, at maturity by the Company, or by the Company prior to maturity, so long as all of the following conditions are met: (i) the Shares issued as payment are registered with the SEC, (ii) the Company's common stock closes for ten consecutive trading days at or above three times the Unit price. The Notes mature on June 1, 2018.

Each Series A warrant allows for the purchase of the number of common shares equal to the investment amount divided by the Unit price, (e.g., one warrant share for each share of common stock which the investor is eligible to receive through conversion of his original convertible note) and, the warrant will have an exercise price as set forth in the Pricing Supplement. Each Series A warrant expires June 1, 2020. The Company may "call" the Series A warrant, requiring the investor to exercise the warrant within 30 days or forever lose the rights to do so, only if the following conditions have been met: (i) the underlying Shares are registered with the SEC, and (ii) the Company's common stock closes for 10 consecutive trading days at or above two times the exercise price.

During the year ended December 31, 2015, we received $2,671,713 and issued unsecured convertible promissory notes with maturity dates of June 1, 2018, which accrue interest at a rate of 12% per annum, and are convertible at the Unit price set forth in the investor's subscription agreement. Of this amount, notes in the face amount of $1,535,000 were issued at a Unit price of $0.25, and $1,136,713 at a Unit price of $0.35. Each investor, for no additional consideration, received a Series A stock purchase warrant. (See Note 7.)

**BIOLARGO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***December/January Notes***

In December 2014, we received $200,000 and issued unsecured convertible promissory notes each with a one-year maturity date, which accrue interest at a rate of 12% per annum. Each noteholder, for no additional consideration, received a stock purchase warrant exercisable at $0.30 per share, which terminates three years after the date of issuance. We issued warrants to purchase an aggregate 350,000 shares. The fair value of the warrants and the intrinsic value of the beneficial conversion feature resulted in a $200,000 discount on the convertible note payables. Each noteholder may exchange the note for the securities offered in our current private securities offering.

In January 2015, we received $133,000 and issued unsecured convertible promissory notes each with a one-year maturity date, which accrue interest at a rate of 12% per annum. Each noteholder, for no additional consideration, received a stock purchase warrant exercisable at $0.30 per share, which terminates three year after the date of issuance. (See Note 7).

In 2015, these notes were converted to a convertible promissory note and Series A stock purchase warrant on the same terms as our 2015 Unit Offering. (See Note 6.)

***Line of Credit***

On November 19, 2013, we received $50,000 pursuant to a line of credit which accrues interest at a rate of 24%. We have pledged our inventory and accounts receivable as collateral. The maturity date of the line of credit is May 15, 2016.

In September 2015, this line of credit was converted to a convertible promissory note and Series A stock purchase warrant on the same terms as our 2015 Unit Offering. (See Note 6.)

**Note 6. Conversion of Notes Payable**

During December 2015, we issued an aggregated 258,236 shares of our common stock to 2015 Unit Offering holders in lieu of $64,559 note payable principal balance.

During 2015, each of our December/January noteholders' exchanged their note for a note and warrant on the terms offered in our 2015 Unit Offering (see Note 5), such that the original notes totaling $333,000 and accrued interest totaling $50,895 were cancelled and we issued new convertible promissory notes totaling $383,895 with an expiration date of June 1, 2018.

During 2015, investors included in our Summer 2014 Offering exercised their right to convert their equity investment into the 2015 Unit Offering. In exchange for a note and warrant on the terms offered in our 2015 Unit Offering (see Note 5), we agreed to cancel 530,000 shares of our common stock issued as part of the Summer 2014 Offering, such that the original equity investment $212,017 was cancelled and we issued new convertible promissory notes totaling $212,017 with an expiration date of June 1, 2018.

On September 30, 2015, the holder of our line of credit agreed to convert the outstanding balance on the line of credit for a convertible promissory note and Series A warrant on the terms offered in our 2015 Unit Offering (see Note 5), such that the original line of credit totaling $50,000 and accrued fees and interest totaling $8,530, were canceled and we issued a new convertible promissory note totaling $58,530 with an expiration date of June 1, 2018. In addition, we issued a Series A stock purchase warrant to the holder allowing the holder to purchase 234,120 shares of our common stock.

**BIOLARGO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

On March 26, 2014, we issued an aggregate 1,360,000 shares of our common stock, at a conversion price of $0.25, resulting in a fair value of $584,800, as payment for an aggregate $275,000 in principal and $65,000 of accrued and unpaid interest expense for three promissory notes (originally issued on June 8, 2010, October 28, 2013, and November 15, 2013). Our stock price on the date of issuance was $0.43 per share, resulting in additional financing costs of $244,800 which was recorded as interest expense during the three-month period ended March 31, 2014.

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

**Note 7. 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, 2013 | 10,618,771 | $0.125 – 1.00 |
| Issued | 5,185,001 | 0.30 – 0.50 |
| Exercised | (674,288) | 0.50 – 1.00 |
| Expired | (6,291,362) | 0.50 – 1.00 |
| Outstanding as of December 31, 2014 | 8,838,122 | $0.125 – 1.00 |
| Issued | 12,693,395 | 0.30 – 0.45 |
| Exercised | — | 0.30 – 0.50 |
| Expired | (7,752,079) | 0.25 – 0.75 |
| Outstanding as of December 31, 2015 | 13,779,438 | $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

relative fair values are 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:

| | **2014** | | | **2015** | | |
|---|---|---|---|---|---|---|
| Risk free interest rate | 0.09 | – | 1.55% | .97 | – | 1.60% |
| Expected volatility | 184 | – | 349% | 255 | – | 332% |
| Expected dividend yield | | — | | | — | |
| Forfeiture rate | | — | | | — | |
| Expected life in years | 1 | – | 5 | 3 | – | 5 |

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

**BIOLARGO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***2015 Unit Offering Warrants***

Pursuant to the terms of our 2015 Unit Offering, during the year ended December 31, 2015, we issued Series A warrants to purchase up to an aggregate 9,597,123 shares of our common stock. Of that amount, warrants to purchase an aggregate 6,320,800 shares were issued at an exercise price of $0.40 per share, and a warrant to purchase 3,276,323 shares was issued at an exercise price of $0.45 per share. These warrants were issued to investors and as commissions, and expire June 1, 2020. The fair value of the warrants and the intrinsic value of the beneficial conversion feature resulted in an aggregate $3,319,906 discount on the convertible notes payable.

***Warrants Issued Concurrently with Convertible Note Payables***

During the year ended December 31, 2015, we issued warrants to purchase an aggregate 266,000 shares of our common stock to holders of our December/January notes (see Note 5). These warrants are exercisable at $0.30 per share and expire January 2020. The fair value of warrants totaled $133,000 and was recorded as interest expense.

Pursuant to the terms of our convertible notes payable, nine noteholders of the December and January convertible notes payable exchanged their notes and accrued interest for notes and warrants on the terms offered in our 2015 Unit Offering totaling 383,913 (see Notes 4 and 5). With the exchange, these note holders received additional warrants to purchase an aggregate 1,535,652 of our common stock at an exercise price of $0.40 which expire June 1, 2018. The fair value of the warrants and the intrinsic value of the beneficial conversion feature resulted in an aggregate $383,913 recorded as a discount on convertible notes payable.

***Summer 2014 Warrants***

On June 25, 2014, we began a private offering of our common stock at a price of $0.40 per share. (See Note 4.) Per the terms of the Summer 2014 offering and through the year ended December 31, 2014, we issued warrants to purchase 717,500 shares of our common stock. The warrant is exercisable at $0.75 per share, will expire on July 31, 2019, and is subject to a call provision in the event (i) the closing price of the Common Stock for each of twenty (20)

consecutive business days, exceeds $1.50 per share (subject to adjustment for forward and reverse stock splits, recapitalizations, stock dividends and the like after the date of issuance of this Warrant), (ii) the Restricted Stock is subject to resale pursuant to 17 C.F.R. 230.144 (“Rule 144”) or pursuant to any other exemption from registration under to the Securities Act of 1933, as amended and (iii) the Shares underlying the Warrant are registered with the SEC.

Pursuant to the terms of our Summer 2014 Offering, three investors choose to exchange their investment for a note and warrant on the terms offered in our 2015 Unit Offering totaling $105,000 (See Note 4 and 5). With the exchange, 262,500 warrants were cancelled and we issued warrants to purchase an aggregate 848,000 of our common stock at an exercise price of $0.40 which expire June 1, 2018. The fair value of the warrants and the intrinsic value of the beneficial conversion feature resulted in an aggregate $105,000 discount on these new convertible notes payable.

**BIOLARGO, INC. AND SUBSIDIARIES**

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***Clyra 2014 Warrants***

Pursuant to the terms of the Clyra 2014 Spring Offering (see Note 4), during 2014 we issued warrants to purchase up to an aggregate 980,000 shares of our common stock to the investors in the Clyra 2014 Spring Offering. The exercise price for each warrant is the tender of one share of Clyra common stock, purchased by the investor for $1,000, in exchange for 4,000 shares of BioLargo common stock. All Clyra investors exercised their warrants and converted their Clyra stock to our common stock. During the year ended December 31, 2015, 410 shares of Clyra common stock were tendered to BioLargo, and in exchange, BioLargo issued an aggregate 1,640,000 shares of BioLargo common stock.

***Other Warrant***

During 2015, The holder of our letter of credit exchanged the letter of credit for a note and warrant on the terms offered in our 2015 Unit Offering totaling $58,530 (See Note 4 and 5). With the exchange, we issued warrants to purchase 234,120 of our common stock at an exercise price of $0.40 which expire June 1, 2020. The fair value of the warrants and the intrinsic value of the beneficial conversion feature resulted in an aggregate $58,530 recorded as a discount on convertible notes payable.

**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, 2014 and December 31, 2015 there were no outstanding shares of our preferred stock.

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

During the years ended December 31, 2014 and 2015, we recorded an aggregate $871,788 and $1,831,313 in selling general and administrative expense related to the issuance of stock options. We issued options through our 2007 Equity Incentive Plan and outside of our 2007 Equity Incentive Plan.

On September 22, 2015, we issued 150,000 shares of our common stock to the president of our Canadian subsidiary, BioLargo Water, for services performed. The stock price on the grant date was $0.65 resulting in $97,500 of selling, general and administrative expense.

**BIOLARGO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***2007 Equity Incentive Plan***

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

Options issued pursuant to our 2007 Equity Incentive Plan during the year ended December 31, 2015:

| Date | | Term | Option Shares | Exercise price | Stock price on grant date | Fair Value | Expense |
|---|---|---|---|---|---|---|---|
| June 24, 2015 | (1) | 10 | 40,000 | $ 0.38 | $0.38 | $15,200 | $15,200 |
| April 20, 2015 | (2) | 10 | 700,000 | 0.40 | 0.34 | 238,000 | 59,460 |
| September 30, 2015 | (3) | 10 | 300,000 | 0.57 | 0.57 | 171,000 | 68,400 |
| Totals | | | 1,040,000 | | | $424,200 | $143,060 |

(1) We recorded the issuance of options to purchase an aggregate 40,000 shares of our common stock to the non-employee members of our Board of Directors, pursuant to the terms of the 2007 Equity Plan which calls for an annual automatic issuance.

(2) We issued an option to purchase shares of our common stock to a consultant. The option vests ratably over twenty-four months.

(3) On September 30, 2015, our Charles K. Dargan, II agreed to extend his engagement agreement dated February 1, 2008 (the "Engagement Agreement", which had been previously extended multiple times), pursuant to which Mr.

Dargan has been serving as our Chief Financial Officer. The Engagement Extension Agreement dated as of September 30, 2015 (the "Engagement Extension Agreement") provides for an additional term to expire September 30, 2016 (the "Extended Term"), and is retroactively effective to February 1, 2015. During the Extended Term, Mr. Dargan shall be compensated through the issuance of an option to purchase 300,000 shares of the Company's common stock that vest over the term of the engagement with 120,000 shares vested as of September 30, 2015, and the remaining shares to vest 15,000 monthly, provided that the Engagement Extension Agreement with Mr. Dargan has not been terminated prior to each vesting date.

In addition to the foregoing, on June 24, 2015, our Board of Directors extended by five years the expiration of an option to purchase 200,000 shares of our common stock issued to our Chief Science Officer in February 2010. The option was originally issued in exchange for unpaid salary obligation at an exercise price of $0.575 and now expires February 5, 2020. The fair value of the options resulted in an additional $68,000 of selling, general and administrative expenses.

On June 24, 2015, our board of directors extended by five years the expiration of options to purchase an aggregate 1,772,581 shares of our common stock issued to consultants, vendors and employees in August 2010. The options were originally issued in exchange for accrued and unpaid amounts owed to the individuals, at an exercise price of $0.30 and now expire August 4, 2020. Fair value of the options resulted in an additional $620,403 of selling, general and administrative expenses.

**BIOLARGO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Options issued pursuant to our 2007 Equity Incentive Plan during the year ended December 31, 2014:

| Date | | Term | Option Shares | Exercise Price | Stock Price on grant date | Fair Value | Expense |
|---|---|---|---|---|---|---|---|
| June 23, 2014 | (1) | 10 | 40,000 | $ 0.63 | $0.63 | $25,200 | $25,200 |
| June 23, 2014 | (2) | 10 | 300,000 | 0.63 | 0.63 | 189,000 | 141,000 |
| | | | $340,000 | | | $214,250 | $166,200 |

(1) We recorded the issuance of options to purchase an aggregate 40,000 shares of our common stock to the non-employee members of our Board of Directors, pursuant to the terms of the 2007 Equity Plan which calls for an annual automatic issuance.

(2) BioLargo, Inc. (the "Company") and its Chief Financial Officer Charles K. Dargan, II formally agreed to extend the engagement agreement dated February 1, 2008 (the "Engagement Agreement", which had been previously extended multiple times), pursuant to which Mr. Dargan has been serving as the Company's Chief Financial Officer. The Engagement Extension Agreement dated as of June 23, 2014 (the "Engagement Extension Agreement") provides for an additional term to expire January 31, 2015 (the "Extended Term"), and is retroactively effective to February 1, 2014. During the Extended Term, Mr. Dargan shall be compensated through the issuance of an option to purchase shares of the Company's common stock which vest over the term of the engagement with 100,000 shares vested as of June 23, 2014, and the remaining shares vest 25,000 monthly through January 31, 2015.

Activity for our stock options under the 2007 Plan for the years ended December 31, 2014 and 2015 is as follows:

| | **Options Outstanding** | **Shares Available** | **Price per share** | **Weighted Average Price per share** |
|---|---|---|---|---|
| Balances as of December 31, 2013 | 8,561,086 | 3,438,914 | $0.25 – $1.89 | $ 0.44 |
| Granted | 40,000 | (40,000) | $0.28 | 0.28 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Exercised | — | — | | — | | — |
| Expired | — | — | | $— | | $ — |
| Balances as of December 31, 2014 | 8,601,086 | 3,398,914 | $0.25 | – | $1.89 | $ 0.44 |
| Granted | 1,040,000 | (1,040,000 ) | $0.38 | – | $0.57 | 0.45 |
| Exercised | — | — | | — | | — |
| Reclassification | 600,000 | (600,000 ) | 0.30 | – | 0.63 | 0.33 |
| Expired | — | — | | — | | — |
| Balances as of December 31, 2015 | 10,241,086 | 1,758,914 | $0.25 | – | $1.89 | $ 0.44 |

**BIOLARGO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following table summarizes the stock options issued under the 2007 Equity Plan outstanding at December 31, 2015.

| Options Outstanding at December 31, 2015 | Exercise Price | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Currently Exercisable Number Of Shares December 31, 2015 | Currently Exercisable Weighted Average Exercise Price |
|---|---|---|---|---|---|
| 525,000 | $0.40 - 1.89 | 2 | $ 1.06 | 525,000 | 1.06 |
| 892,135 | 0.28 - 0.99 | 3 | 0.51 | 892,135 | 0.51 |
| 1,010,000 | 0.31 - 0.70 | 4 | 0.56 | 1,010,000 | 0.56 |
| 3,429,450 | 0.22 - 0.57 | 5 | 0.33 | 3,429,450 | 0.33 |
| 1,989,340 | 0.34 - 0.51 | 6 | 0.37 | 1,989,340 | 0.37 |
| 715,161 | 0.28 - 0.40 | 7 | 0.36 | 715,161 | 0.36 |
| 640,000 | 0.30 – 0.65 | 8 | 0.48 | 640,000 | 0.48 |
| 740,000 | 0.38 – 0.40 | 9 | 0.40 | 233,333 | 0.40 |
| 300,000 | 0.57 | 10 | 0.57 | 165,000 | 0.57 |
| 10,241,086 | $0.22 – 1.89 | 4 | $ 0.44 | 9,599,419 | $ 0.44 |

**BIOLARGO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

At our June 2013 Board of Directors meeting, in an effort to preserve our cash and reduce outstanding payables, our Board adopted a plan to offer employees, board members, consultants and vendors the opportunity to convert outstanding payable amounts into either (i) an option to purchase common stock in lieu of cash payment at the then market price of our common stock, expiring ten years from the date of issuance, and containing "cashless" exercise provisions (each, an "Option"), the number of shares purchasable to be calculated based on the amount converted times 1.5, or (ii) our common stock at market price. Options issued outside of the 2007 Equity Incentive Plan during the year ended December 31, 2015 are (those issued pursuant to this Accounts Payable Conversion Plan are so noted):

| Date | | Term | Option Shares | Exercise Price | Stock Price on grant date | Fair Value | Expense |
|---|---|---|---|---|---|---|---|
| December 31, 2015 | (1) | 10 | 124,000 | $ 0.50 | $0.50 | $62,000 | $62,000 |
| December 31, 2015 | (2) | 10 | 58,500 | 0.50 | 0.50 | 29,250 | 29,250 |
| September 22, 2015 | (3) | 10 | 103,846 | 0.65 | 0.65 | 67,500 | 67,500 |
| September 22, 2015 | (4) | 10 | 125,770 | 0.65 | 0.65 | 81,750 | 81,750 |
| September 22, 2015 | (5) | 10 | 200,000 | 0.35 | 0.65 | 130,000 | 110,500 |
| June 29, 2015 | (6) | 10 | 218,143 | 0.35 | 0.35 | 76,350 | 76,350 |
| June 29, 2015 | (7) | 10 | 192,857 | 0.35 | 0.35 | 67,500 | 67,500 |
| April 20, 2015 | (8) | 10 | 75,000 | 0.34 | 0.34 | 25,500 | 25,500 |
| April 19, 2015 | (9) | 10 | 200,000 | 0.37 | 0.34 | 74,000 | 74,000 |
| March 31, 2015 | (10) | 10 | 387,676 | 0.36 | 0.36 | 139,563 | 139,563 |
| March 30, 2015 | (11) | 10 | 190,142 | 0.36 | 0.36 | 68,451 | 68,451 |
| February 5, 2015 | (12) | 10 | 200,000 | 0.33 | 0.33 | 66,000 | 66,000 |
| 2014 and prior | (13) | | — | | | — | 74,145 |
| Total 2015 | | | 2,075,934 | | | | $952,509 |

(1) We issued options to purchase shares of our common stock to our board of directors in lieu of $62,000 in accrued and unpaid fees pursuant to our Accounts Payable Conversion Plan.

(2)

We issued options to purchase shares of our common stock to our vendors in lieu of $19,500 in accrued and unpaid fees pursuant to our Accounts Payable Conversion Plan.

(3) We issued options to purchase shares of our common stock to our board of directors in lieu of $45,000 in accrued and unpaid fees pursuant to our Accounts Payable Conversion Plan.

(4) We issued options to purchase shares of our common stock to vendors in lieu of $54,500 in accrued and unpaid fees pursuant to our Accounts Payable Conversion Plan.

(5) We issued options to purchase shares of our common stock to the president of our BioLargo Water Canada subsidiary. Of the total options issued, 140,000 vest immediately and the remaining 60,000 options vest 10,000 per month, provided that our president has not been terminated prior to each vesting date.

(6) We issued options to purchase shares of our common stock to vendors, in lieu of $50,900 in accrued and unpaid fees pursuant to our Accounts Payable Conversion Plan.

(7) We issued options to purchase shares of our common stock to our members of our board of directors, in lieu of $45,000 in accrued and unpaid fees due for their services on the board pursuant to our Accounts Payable Conversion Plan.

**BIOLARGO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(8) We issued an option to purchase shares of our common stock to a consultant for services provided.

(9) We issued an option to purchase shares of our common stock to two consultants for services provided.

(10) We issued options to purchase shares of our common stock to two vendors, in lieu of $91,750 in accrued and unpaid fees pursuant to our Accounts Payable Conversion Plan.

(11) We issued options to purchase shares of our common stock to our members of our board of directors, in lieu of $45,000 in accrued and unpaid fees due for their services on the board pursuant to our Accounts Payable Conversion Plan.

(12) We issued an option to purchase 200,000 shares of our common stock to a consultant for services provided.

(13) Expense recorded for the vesting of stock options issued in prior periods.

Options issued outside of the 2007 Equity Incentive Plan during the year ended December 31, 2014 are:

| Date | | Term | Option Shares | Exercise price | Stock price on grant date | Fair Value | Expense |
|---|---|---|---|---|---|---|---|
| December 26, 2014 | (1) | 10 | 192,857 | $ 0.35 | $0.35 | $67,500 | $67,500 |
| December 26, 2014 | (2) | 10 | 250,715 | 0.35 | 0.35 | 87,750 | 87,750 |
| September 29, 2014 | (3) | 10 | 143,617 | 0.47 | 0.47 | 67,500 | 67,500 |
| September 29, 2014 | (4) | 10 | 193,511 | 0.47 | 0.47 | 90,950 | 90,950 |
| June 24, 2014 | (5) | 10 | 103,847 | 0.65 | 0.65 | 67,501 | 67,501 |
| June 24, 2014 | (6) | 10 | 148,848 | 0.65 | 0.65 | 96,750 | 96,750 |
| March 31, 2014 | (7) | 10 | 156,888 | 0.43 | 0.43 | 67,461 | 67,461 |
| March 31, 2014 | (8) | 10 | 78,488 | 0.43 | 0.43 | 33,750 | 33,750 |
| February 20, 2014 | (9) | 10 | 40,000 | 0.35 | 0.35 | 14,000 | 14,000 |
| 2013 and prior | (10) | | — | | | — | 40,160 |

| | |
|---|---|
| Total | 633,332 |

(1) On December 26, 2014, we issued options to purchase 192,857 shares of our common stock at an exercise price of $0.35 per share to our board of directors in lieu of $45,000 in accrued and unpaid fees pursuant to our Accounts Payable Conversion Plan. The fair value of the options totaled $67,500, resulting in $22,500 of additional selling, general and administrative expenses.

(2) On December 26, 2014, we issued options to purchase 250,715 shares of our common stock at an exercise price of $0.35 per share to vendors in lieu of $58,500 in accrued and unpaid fees pursuant to our Accounts Payable Conversion Plan. The fair value of the options totaled $87,750, resulting in $29,250 of additional selling, general and administrative expenses.

(3) We issued options to purchase shares of our common stock to our board of directors in lieu of $45,000 in accrued and unpaid fees pursuant to our Accounts Payable Conversion Plan.

(4) We issued options to purchase shares of our common stock to vendors in lieu of $67,500 in accrued and unpaid fees pursuant to our Accounts Payable Conversion Plan.

(5) We issued options to purchase shares of our common stock to our board of directors in lieu of $45,000 in accrued and unpaid fees pursuant to our Accounts Payable Conversion Plan.

**BIOLARGO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(6) We issued options to purchase shares of our common stock to vendors in lieu of $64,500 in accrued and unpaid fees pursuant to our Accounts Payable Conversion Plan.

(7) We issued options to purchase shares of our common stock to our board of directors, in lieu of $45,000 in accrued and unpaid fees pursuant to our Accounts Payable Conversion Plan.

(8) We issued options to purchase shares of our common stock to a vendor, in lieu of $22,500 in accrued and unpaid fees pursuant to our Accounts Payable Conversion Plan.

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

(10) Expense recorded for the vesting of stock options issued in prior periods.

**BIOLARGO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Activity for our stock options issued outside of the 2007 Plan for the years ended December 31, 2014 and 2015 is as follows:

| | Options Outstanding | Exercise Price | | | Weighted Average Price per share |
|---|---|---|---|---|---|
| Balances as of December 31, 2013 | 16,398,395 | $0.18 | – | $1.00 | $ 0.39 |
| Granted | 1,608,771 | $0.25 | – | 0.30 | $ 0.50 |
| Exercised | (41,875) | — | | | — |
| Expired | — | — | | | — |
| Balances as of December 31, 2014 | 17,965,294 | $0.18 | – | $1.00 | $ 0.40 |
| Granted | 2,075,931 | $0.25 | – | 0.65 | $ 0.40 |
| Exercised | — | 0.33 | – | 0.65 | 0.40 |
| Reclassification | (600,000) | 0.30 | – | 0.63 | 0.33 |
| Expired | (46,250) | 0.30 | | | 0.30 |
| Balances as of December 31, 2015 | 19,394,975 | $0.18 | – | $1.00 | $ 0.40 |

The following table summarizes the stock options issued outside of the 2007 Equity Incentive Plan outstanding at December 31, 2015.

| Options Outstanding at December 31, 2015 | Exercise Price | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Currently Exercisable Number of Shares at December 31, 2015 | Weighted Average Exercise Price |
|---|---|---|---|---|---|
| 7,733,259 | $0.18 | 1 | $ 0.18 | 7,733,259 | $ 0.18 |
| 2,400,000 | 0.99 | 1 | 0.99 | 2,400,000 | 0.99 |
| 691,975 | 0.55 | 3 | 0.55 | 691,975 | 0.55 |
| 800,000 | 1.00 | 6 | 1.00 | 483,333 | 1.00 |

| | | | | | |
|---|---|---|---|---|---|
| 168,750 | 0.40 | 7 | 0.40 | 168,750 | 0.40 |
| 1,456,110 | 0.30 | 7 | 0.30 | 1,456,110 | 0.30 |
| 3,288,246 | 0.25 – 0.65 | 8 | 0.28 | 3,288,246 | 0.28 |
| 1,833,518 | 0.33 – 0.47 | 9 | 0.40 | 1,833,518 | 0.40 |
| 1,023,112 | 0.35 – 0.65 | 10 | 0.40 | 1,013,112 | 0.40 |
| 19,394,972 | $0.18 – 1.00 | 8 | $ 0.40 | 19,068,303 | $ 0.40 |

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 each of the years ended December 31, 2014 and 2015:

| | 2014 | | 2015 | |
|---|---|---|---|---|
| | **Non Plan** | **2007 Plan** | **Non Plan** | **2007 Plan** |
| Risk free interest rate | 2.25 – 2.76% | 2.63 % | 1.83 – 2.33% | 1.60 – 2.38% |
| Expected volatility | 837 – 935% | 927 % | 794 – 821% | 322 – 807% |
| Expected dividend yield | — | — | — | — |
| Forfeiture rate | — | — | — | — |
| Expected life in years | 7 | 7 | 7 | 3 - 7 |

**BIOLARGO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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

**Note 10. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses included the following:

| | **December 31, 2014** | **December 31, 2015** |
|---|---|---|
| Accounts payable | $ 219,182 | $ 63,578 |
| Payable in dispute | 106,000 | 106,000 |
| Uncertain tax liability | 137,500 | 142,461 |
| Accrued interest | 32,256 | 12,944 |
| Total Accounts Payable and Accrued Expenses | $ 494,938 | $ 324,983 |

***Issuance of Common Stock in exchange for payment of payables***

***Payment of Officer Salaries***

During 2015 we issued 738,837 shares of our common stock at a range of $0.35 - $0.36 per share in lieu of $309,975 of accrued and unpaid obligations to our officers.

During 2014 we issued 664,410 shares of our common stock at a range of $0.35 - $0.65 per share in lieu of $294,579 of accrued and unpaid obligations to our officers.

All of these offerings and sales were made in reliance on the exemption from registration contained in Section4(2) of the Securities Exchange Act and/or Regulation D promulgated thereunder as not involving a public offering of securities.

***Payment of Consultant Fees and Accrued Interest***

During 2015 we issued 631,643 shares of our common stock at a range of $0.35 - $0.36 per share in lieu of $360,364 of accrued and unpaid obligations to consultants.

During 2014, we issued 590,476 shares of our common stock at a range of $0.25 - $0.80 per share in lieu of $331,794 of accrued and unpaid obligations to consultants.

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.

**BIOLARGO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 11. Provision for Income Taxes**

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

At December 31, 2015, we had federal and California tax net operating loss carry-forwards of approximately $43 million. Due to changes in our ownership through various common stock issuances during 2002 and 2007, the utilization of net operating loss carry-forwards may be subject to annual limitations and discounts under provisions of the Internal Revenue Code. We have not conducted an analysis to determine the extent of any limitation. 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, 2015, our U.S. Federal and California State income tax returns related to the years 2011-2015 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 12. Noncontrolling Interest**

In May 2012, we formed a subsidiary for the purpose of marketing and selling medical products containing our technology, Clyra Medical Technology, Inc. (“Clyra”). Until December 17, 2012, this subsidiary was wholly-owned, with 7,500 shares issued to BioLargo, Inc. On December 17, 2012, Clyra issued 1,500 shares of Clyra common stock to a three-member management team, one-third of which vested immediately, and the remaining over time. The shares granted to the three executives are restricted from transfer until a sale of the company, whether by means of a sale of its stock or substantially all of its assets, or otherwise by agreement of Clyra, BioLargo and the executives.

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

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

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

In addition to the foregoing, Clyra entered into a consulting agreement with Beach House Consulting, LLC, through which Jack B. Strommen will be providing consulting services to the company. Mr. Strommen is a founder and leader of PD Instore (www.pdinstore.com), works with some of the world's leading retailers, and has overseen many national ground-breaking marketing rollouts and initiatives. Mr. Strommen will be assisting the company in its sales and marketing activities once it has FDA Approval on a product, at which point the agreement provides that Mr. Strommen is to receive $23,437.50 per month for a period of four years.

**BIOLARGO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended December 31, 2015, Clyra generated no revenues and Clyra's operations resulted in a net loss of $115,859 on a consolidated basis.

**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.

***2015 Unit Offering***

During the three-month period ending March 31, 2016, we received $195,000 and issued unsecured convertible promissory notes to five investors pursuant to our 2015 Unit Offering (see Note 5). The notes mature June 1, 2018, accrue interest at a rate of 12% per annum, and are convertible at the Unit price of $0.35. Each investor, for no additional consideration, received a Series A stock purchase warrant. (See Note 7.)