

BIOLARGO, INC.
Form 10-Q
May 15, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2008.

or

.. **TRANSITION REPORT UNDER 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)

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Delaware
*(State or other jurisdiction of
incorporation or organization)*

65-0159115
*(I.R.S. Employer
Identification No.)*

2603 Main Street, Suite 1155

Irvine, California 92614

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

(949) 235-8062

(Registrant's telephone number, including area code)

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

**Securities registered pursuant to Section 12(g) of the Exchange Act: Common Stock, \$0.0067 par
value.**

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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. 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 number of shares of the Registrant's Common Stock outstanding as of March 31, 2008 was 40,467,611 shares.

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	December 31, 2007	March 31, 2008 (unaudited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 458,000	\$ 593,000
Prepaid expenses	5,000	5,000
Total current assets	463,000	598,000
OTHER ASSETS		
Licensing rights, net	10,655,000	10,400,000
Assigned agreements, net	340,000	319,000
TOTAL ASSETS	\$ 11,458,000	\$ 11,317,000
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 781,000	\$ 962,000
Accrued option compensation expense	636,000	1,123,000
Convertible notes payable, current portion	1,000,000	1,000,000
Discount on convertible notes, current portion net of amortization	(443,000)	(384,000)
Note payable	22,000	15,000
Total Current Liabilities	1,496,000	2,716,000
LONG-TERM LIABILITIES		
Convertible notes payable, net of current portion	1,000,000	1,000,000
Discount on convertible notes, net of current portion and amortization	(574,000)	(664,000)
	926,000	336,000
TOTAL LIABILITIES	2,422,000	3,052,000
COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS		
STOCKHOLDERS EQUITY		
Convertible Preferred Series A, \$.00067 Par Value, 50,000,000 and 25,000,000 Shares Authorized, -0-Shares Issued and Outstanding, at March 31, 2008 and December 31, 2007.		
Common Stock, \$.00067 Par Value, 200,000,000 and 100,000,000 Shares Authorized, 40,467,611 and 39,980,611 Shares Issued, at March 31, 2008 and December 31, 2007, respectively	27,000	27,000
Additional Paid-In Capital	44,022,000	45,668,000
Accumulated Deficit	(35,013,000)	(37,430,000)
Total Stockholders Equity	9,036,000	8,265,000

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TOTAL LIABILITIES AND STOCKHOLDERS EQUITY

\$ 11,458,000

\$ 11,317,000

See accompanying notes to consolidated financial statements

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BIOLARGO, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE QUARTERS ENDED
MARCH 31, 2007 AND 2008
(unaudited)

	For the quarter ended March 31,	
	2007	2008
Revenue	\$	\$
Total revenues		
Costs and expenses		
Selling, general and administrative	619,000	1,912,000
Research and development	18,000	50,000
Amortization expense		277,000
Total costs and expenses	637,000	2,239,000
Loss from operations	(637,000)	(2,239,000)
Other income and (expense)		
Interest expense	(1,053,000)	(191,000)
Other income		13,000
Net other income (expense)	(1,053,000)	(178,000)
Net loss before taxes	(1,691,000)	(2,417,000)
Income tax expense (benefit)		
Net loss	\$ (1,691,000)	\$ (2,417,000)
Basic and diluted loss per share	\$ (0.39)	\$ (0.06)
Weighted average common share equivalents outstanding	4,281,186	40,155,296

See accompanying notes to consolidated financial statements

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BIOLARGO, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE QUARTER ENDED MARCH 31, 2008

	Preferred Stock Number of Shares	Par Value \$.00067	Common Stock Number of Shares	Par Value \$.00067	Additional Paid-In Capital	Retained Earnings (Deficit)	Total
BALANCE DECEMBER 31, 2007			39,981,000	\$ 27,000	\$ 44,022,000	\$ (35,013,000)	\$ 9,036,000
Exercised warrants			487,000		608,000		608,000
Issuance of warrants as part of convertible note offering					166,000		166,000
Issuance of warrants to consultants					282,000		282,000
Issuance of stock options to consultants					590,000		590,000
Net loss for the quarter ended March 31, 2008						(2,417,000)	(2,417,000)
BALANCE MARCH 31, 2008 (unaudited)			40,468,000	\$ 27,000	\$ 45,668,000	\$ (37,430,000)	\$ 8,265,000

See accompanying notes to consolidated financial statements

Table of Contents**BIOLARGO, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE QUARTERS ENDED****MARCH 31, 2007 AND 2008****(unaudited)**

	For the quarter ended March 31	
	2007	2008
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net Loss	\$ (1,691,000)	\$ (2,417,000)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Non-cash interest expense related to conversion of noteholder obligations	961,000	
Non-cash interest expense related to the fair value of warrants issued in conjunction with our convertible notes	101,000	135,000
Non-cash expense related to options issued to officers		340,000
Non-cash expense related to options issued to consultants		737,000
Non-cash expense related to warrants issued to consultants		282,000
Amortization of intangible assets		276,000
Decrease in prepaid expense	10,000	
Increase in accounts payable and accrued expenses	213,000	181,000
Net Cash Used In Operating Activities	(406,000)	(466,000)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from exercised warrants		608,000
Payments to note payable		(7,000)
Proceeds from convertible notes	324,000	
Net Cash Provided By Financing Activities	324,000	601,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(82,000)	135,000
CASH AND CASH EQUIVALENTS BEGINNING	229,000	458,000
CASH AND CASH EQUIVALENTS ENDING	\$ 147,000	\$ 593,000
<u>SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION</u>		
Cash Paid During the Period for:		
Interest	\$	\$
Income taxes	\$	\$
Conversion of convertible notes to shares of the Company's common stock	\$ 2,235,000	\$
Conversion of accrued expenses to shares of the Company's common stock:		
Board of Directors and officer obligations	\$ 609,000	\$
Consultant obligations	\$ 197,000	\$
<u>SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING AND INVESTING ACTIVITIES:</u>		
Issuance of warrants in conjunction with convertible note offerings	\$ 192,000	\$ 166,000

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See accompanying notes to consolidated financial statements

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BIOLARGO, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Business and Organization

Outlook

Prior to the acquisition of the suite of patented and patent-pending intellectual property and other assets (the BioLargo technology) from IOWC Technologies, Inc. (IOWC) and Kenneth R. Code on April 30, 2007, BioLargo, Inc. (the Company , or we) had no continuing business operations and operated as a public shell.

We will need substantial working capital to maintain our legal status and to fund other anticipated costs and expenses during the year ending December 31, 2008 and beyond, as well as to fund the commercialization of the BioLargo technology. Our ability to continue as a going concern is dependent on our ability to raise capital to, at a minimum, meet our corporate maintenance requirements and fund the operations necessary to commercially exploit the BioLargo technology. We will need additional outside capital until and unless that technology is able to generate positive working capital sufficient to fund our cash flow requirements from operations.

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of our business. As reflected in the accompanying financial statements, we had a net loss of \$2,417,000 for the quarter ended March 31, 2008, negative cash flow from operating activities of \$466,000 for the quarter ended March 31, 2008, and an accumulated stockholders' deficit of \$37,430,000 as of March 31, 2008. Also, as of March 31, 2008, we had limited liquid and capital resources. 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 its ability to attract new sources of capital, exploit the technology acquired so it attains a reasonable threshold of operating efficiencies and achieves profitable operations. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

Cash and cash equivalents totaled \$593,000 at March 31, 2008. We had no revenues in the quarter ended March 31, 2008, and financing activities primarily funded operations.

During the quarter ended March 31, 2008, we received \$608,000 from the exercise of our warrants. (See Note 4.)

As of March 31, 2008, we had \$2,015,000 aggregate principal amount of promissory notes that mature at various times during 2008 and 2009. This amount includes (i) convertible notes issued to investors totaling \$2,000,000 (see Note 3), and (ii) a note totaling \$15,000 (see Note 8).

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

Quarterly results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis and financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2007.

Organization

On March 15, 2007 our stockholders approved, and we have completed, an increase in our authorized capital stock and a corporate name change, changing our name from NuWay Medical, Inc. to BioLargo, Inc. The amendment to the certificate of incorporation was filed on March 16, 2007 with the Secretary of State of the State of Delaware. In connection with this name change, our stock began trading on the Pink Sheets under a new trading symbol, BLGO effective March 21, 2007. On January 23, 2008, it began trading on the OTC Bulletin Board under the trading symbol BLGO .

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BIOLARGO, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Intellectual Property

By leveraging our suite of patented and patent-pending intellectual property, which we refer to as the BioLargo technology, our business strategy is to harness and deliver nature's best disinfectant—iodine—in a safe, efficient, environmentally sensitive and cost-effective manner. Our BioLargo technology works by combining minerals with water from any source and delivering molecular iodine on demand, in controlled dosages, in order to balance efficacy of disinfectant performance with concerns about toxicity. When our BioLargo technology is incorporated in absorbent products, referred to as B12O-SORB absorbents, third party testing has confirmed that the products also experience increased holding power and we believe that they may also experience increased absorption. Our BioLargo technology also includes know-how and trade secrets, which, together with our intellectual property, contribute to our expertise in product design, manufacturing, product claims, safety features and competitive positioning of products that feature our BioLargo technology.

Our BioLargo technology creates a value-added proposition to existing products and can be used to create new products. Our BioLargo technology can be incorporated into absorbents, washes and sprays, and into various products and applications across multiple industry verticals. Our BioLargo technology has the potential to replace other disinfectants such as chlorines and bromines, which may be harmful to the environment. Our business model is to license our BioLargo technology to others, rather than to manufacture our own products.

The centerpiece of our BioLargo technology is CupriDyne, a mineral and salt formulation that is the principal reactive agent we have focused on in our research and development, testing and patent protection to date and on which we will continue to devote substantial additional efforts. We have also engaged in research and development and, subject to adequate financing, intend to engage in additional research and development on, and testing and protection of, other formulations to deliver our BioLargo technology.

Our current focus is to develop opportunities to license our BioLargo technology to others in various vertical markets. We do not currently intend to manufacture our own products, although we will contract with others to manufacture the chemicals and minerals that comprise our BioLargo technology.

Note 2. Intangible Assets/Long-lived Assets

Licensing rights are stated on the balance sheet net of accumulated amortization of \$937,000 as of March 31, 2008. Amortization expense for the quarters ended March 31, 2008 and 2007 was \$256,000 and \$0, respectively. At March 31, 2008 the weighted average remaining amortization period for the licensing rights was approximately 11 years.

Certain agreements assigned to us in connection with our acquisition of the BioLargo technology (the Assigned Agreements) are stated on the balance sheet net of accumulated amortization of \$78,000 at March 31, 2008. Amortization expense for the quarters ended March 31, 2008 and 2007 was \$21,000 and \$0, respectively. At March 31, 2008 the Assigned Agreements have a remaining amortization period of approximately 4 years.

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BIOLARGO, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Sale of Unregistered Securities

To fund our operations, we have raised money pursuant to several private offerings of its securities, the details of which are provided below.

2007 Offering

Pursuant to a private offering that commenced in May 2007 (the 2007 Offering) and terminated December 2007, we sold an aggregate \$1,000,000 of our convertible notes (the 2007 Notes), which are due and payable on June 30, 2009. Interest accrues at 10% compounding annually and is payable at our option in cash or stock at an initial conversion rate of \$0.70 per share. Purchasers of the 2007 Notes received, for no additional consideration, stock purchase warrants (the 2007 Warrants) entitling the holder to purchase a number of shares of our common stock equal to the number of shares of common stock into which the principal amount of the investor s 2007 Note is convertible. The 2007 Warrants are exercisable at \$1.30 per share and will expire on June 30, 2010. (See Note 4.)

The 2007 Notes are convertible into shares of our common stock at an initial conversion price of \$0.70 per share. The 2007 Notes can be converted voluntarily by the noteholders at any time. We can unilaterally convert the 2007 Notes (i) on or after September&nbs