

CONSUMERS BANCORP INC /OH/  
Form DEF 14A  
September 22, 2010

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

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**  
**(Amendment No. \_\_)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**Consumers Bancorp, Inc.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(3) Filing Party:

(4) Date Filed:

**CONSUMERS BANCORP, INC.**

614 East Lincoln Way

P.O. Box 256

Minerva, Ohio 44657

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON OCTOBER 27, 2010**

To Our Shareholders:

Notice is hereby given that the Annual Meeting of Shareholders of Consumers Bancorp, Inc. will be held at Courtney s Banquet Center, 981 East State Street, Alliance, Ohio, on Wednesday, October 27, 2010, at 4:00 p.m. (local time), for the following purposes:

1. To elect three Class I directors to serve a three-year term until the Annual Meeting of Shareholders in 2013 or until their successors are elected and qualified;
  2. To adopt the Consumers Bancorp 2010 Omnibus Incentive Plan; and
  3. For the transaction of any other business that may properly come before the meeting or any adjournment thereof.
- Only those shareholders of record at the close of business on September 7, 2010 are entitled to notice of and to vote at the Annual Meeting of Shareholders and any adjournment thereof.

By Order of the Board of Directors

/s/ Laurie L. McClellan  
Laurie L. McClellan

Chairman

Minerva, Ohio

September 22, 2010

**YOUR VOTE IS IMPORTANT. WE URGE YOU TO SIGN, DATE AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON. IF YOU ATTEND THE MEETING AND SO DESIRE, YOU MAY WITHDRAW YOUR PROXY BY GIVING A WRITTEN NOTICE OF REVOCATION AND VOTE IN PERSON.**

**CONSUMERS BANCORP, INC.**

614 East Lincoln Way

P.O. Box 256

Minerva, Ohio 44657

**PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON OCTOBER 27, 2010**

**GENERAL INFORMATION**

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Consumers Bancorp, Inc. (the Company or Consumers Bancorp) for use at the Annual Meeting of Shareholders (the Annual Meeting) to be held at Courtney's Banquet Center, 981 East State Street, Alliance, Ohio, on Wednesday, October 27, 2010, at 4:00 p.m., E.S.T and any adjournments thereof.

This Proxy Statement and the accompanying proxy are first being mailed to shareholders on or about September 22, 2010. It is contemplated that solicitation of proxies generally will be by mail. However, officers or employees of Consumers Bancorp or Consumers National Bank, a wholly-owned subsidiary of Consumers Bancorp, may also solicit proxies by electronic media without additional compensation. Consumers Bancorp will pay the costs associated with the solicitation of proxies.

Shareholders of record at the close of business on September 7, 2010 are entitled to notice of and to vote at the Annual Meeting. As of September 7, 2010, 2,037,887 Consumers Bancorp common shares, no par value, were issued and outstanding. Each shareholder will be entitled to one vote for each common share beneficially owned on all matters that come before the Annual Meeting.

Proxies solicited by the Board of Directors will be voted in accordance with the instructions given, unless revoked. Where no instructions are provided, all properly executed proxies will be voted (1) **for** the election to the Board of Directors of all nominees for Class I directors named in this Proxy Statement; (2) **for** the Consumers Bancorp 2010 Omnibus Incentive Plan; and (3) at the discretion of the holders of the proxies, on such other business that may properly come before the meeting or any adjournment thereof.

The shareholders present in person or by proxy shall constitute a quorum. The three nominees receiving the highest number of votes cast, including votes cast cumulatively, shall be elected Directors. Abstentions and broker non-votes will be counted in establishing the quorum. A proxy may be revoked at any time before it is voted by providing written notice to Consumers Bancorp, by submitting a later dated proxy or by voting in person at the Annual Meeting. Any written notice revoking a proxy should be sent to Ms. Theresa Linder, Secretary, Consumers Bancorp, Inc., P.O. Box 256, Minerva, Ohio 44657.

**PROPOSAL 1**

**ELECTION OF DIRECTORS**

*Election of Directors*

The Board of Directors, acting through the Nominating Committee, is responsible for identifying and evaluating candidates for Board membership. The Board currently consists of nine members and the Company's Amended and Restated Articles of Incorporation provides that the Board of Directors be divided as equally as possible into three classes designated as Class I, Class II and Class III. Generally, the directors in each class are elected to serve staggered three year terms so that the term of office of one class of directors expires at each annual meeting. Currently, the Board of Directors has three directors in Class I with terms expiring in 2010, three directors in Class II with terms expiring in 2011 and three directors in Class III with terms expiring in 2012.

The terms of office of current Class I directors James V. Hanna, James R. Kiko, Sr., and John E. Tonti will expire at the annual meeting on October 27, 2010 and the current Class I directors constitute the nominees to be elected to serve until the 2013 annual meeting and until their successors are elected. Additional information concerning the nominees for director, the directors and executive officers of Consumers Bancorp is provided in the following pages.

The common shares represented by the accompanying proxy will be voted **for** the election of the nominees to serve as directors, unless contrary instructions are indicated on the proxy card. The nominees for director receiving the greatest number of **for** votes will be elected as directors. If the election of directors is by cumulative voting, the persons appointed by the accompanying proxy intend to cumulate the votes represented by the proxies they receive and distribute such votes in accordance with their best judgment.

If one or more of the nominees should at the time of the Annual Meeting be unavailable or unable to serve as a director, the common shares represented by the proxies will be voted to elect the remaining nominees and any substitute nominee or nominees designated by the Board of Directors. The Board of Directors knows of no reason why any of the nominees will be unavailable or unable to serve.

**The Board of Directors recommends that the shareholders vote **FOR**  
the election of the nominees for Class I directors.**

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**DIRECTORS AND EXECUTIVE OFFICERS****Director Nominees for Election at the Annual Meeting****Class I Directors Term ending in 2013**

**James V. Hanna** (age 67) has served as a Director of Consumers Bancorp, Inc. and Consumers National Bank since February of 2005. Mr. Hanna is a Member of the Asset Liability Committee and Loan Committee. He is retired from a career in security and law enforcement, having spent 13 years as a Security Officer for the Ford Motor Company and five years as a Patrolman and Narcotics Agent for the Canton City Police Department. He continues as a Deputy Sheriff for the Carroll County Sheriff's Department, having served since 1999. Mr. Hanna is Manager for the Hanna Family Investment Company, LLC. Having experience in the investment area, he has actively served on the Asset Liability Committee since joining the Company.

**James R. Kiko, Sr.** (age 66) has served as a Director of Consumers Bancorp, Inc. and Consumers National Bank since February of 1997. He is an Independent Member of the Audit Committee, Executive Committee, Loan Committee (Chairman) and Nominating Committee. Mr. Kiko was a Director for Kiko Auctioneers, Inc. until 2009. He is a Certified Auctioneer and has held various positions including Auctioneer, Vice President and President with Kiko Auctioneers, Inc. and Russ Kiko Associates, Inc., in Canton, Ohio, conducting business in real estate brokerage and auction services, and he is a Realtor with the Richard T. Kiko Agency, involved with real estate sales since 1962. Mr. Kiko is a part owner and operator of Kiko Farms. He has a strong background in real estate and equipment sales and evaluation as well as experience in business management and agriculture. He has served on the Loan Committee since joining the Board in 1997, offering current trend information on property values that are appropriate for the varying economic conditions.

**John E. Tonti** (age 69) has served as a Director of Consumers Bancorp, Inc. and Consumers National Bank since March of 2004. He is an Independent Member of the Asset Liability Committee, Audit Committee (Chairman) and Executive Committee. He is a CPA and former Partner of Hill, Barth & King, in Salem, Ohio, serving from 1963 to 2000. Mr. Tonti is currently the President of the Salem Community Foundation and is retired from the former Key Bank, Canton-Mahoning Advisory Board. He served as Executive Director of the Northern Columbiana County United Way from 2003 to 2006. Mr. Tonti brings a strong financial and investing background, serving as the Audit Committee's Chairman and as the Board's Financial Expert since 2005. He brings a long history of involvement with the banking industry, has an extensive community service background and has a good understanding of nonprofits.

**Continuing Directors****Class II Directors Term ending in 2011**

**David W. Johnson** (age 50) has served as a Director of Consumers Bancorp, Inc. and Consumers National Bank since July of 1997. He is an Independent Member of the Asset Liability Committee, the Corporate Governance Committee (Chairman), the Compensation Committee and the Nominating Committee. Mr. Johnson has been in the tile manufacturing business since 1984. He is currently the Chief Executive Officer of Summitville Tiles, Inc., previously serving as President and Vice President of Administration, located in Summitville, Ohio. He is currently President of Spread Eagle Tavern & Inn, serving in that capacity since 1990, a fine dining restaurant and restored inn in Hanoverton, Ohio. Mr. Johnson is a Partner in PCJ Ltd. and Johnson Joint Venture, both family holding companies. Mr. Johnson has extensive management knowledge, business experience and is dedicated to community and civic affairs, serving on various educational, political and business boards. As a leader in manufacturing, Mr. Johnson has represented the industry at both the State and Federal levels. Having served as Chairman of Corporate Governance and as member of the Asset and Liability Committee since joining the Board, Mr. Johnson has a strong history in bank governance.

**Laurie L. McClellan** (age 57) has served as a Director of Consumers Bancorp, Inc. and Consumers National Bank since October of 1987 and as Chairman of the Boards since March of 1998. During the past year Ms. McClellan performed internal corporate duties with an emphasis on investor and community relations and was named the Director of Investor Relations for Consumers Bancorp, Inc. Prior to becoming Chairman, she served as Corporate Secretary and Vice Chairman of the Boards. In 2005, Ms. McClellan was appointed Acting Treasurer of Consumers Bancorp. She is a Registered Radiologic Technologist and practiced at Westwood Urgent Care in Alliance, Ohio from 1994 to 2002 and at Immediate Medical Services in Alliance, Ohio from 2003 to 2004. Ms. McClellan is the Manager of the Romain Fry Investment Company, LLC and has served on various community and nonprofit advisory boards. She has 23 years experience in Community Banking with an extensive knowledge of the Company's history and operations and has a good understanding of banking regulation and compliance.

**Harry W. Schmuck** (age 61) has served as a Director of Consumers Bancorp, Inc. and Consumers National Bank since November of 2005. Mr. Schmuck is an Independent Member of the Asset Liability Committee, Audit Committee, Corporate Governance Committee and Loan Committee. He is the Operations Manager of Schmuck Partnership, an Agricultural Business, working in the business since 1970, and a Farm Sales Associate of Russ Kiko & Associates, Inc. Mr. Schmuck brings experience in agricultural





products and livestock sales and valuation. He is responsible for guiding the Schmuck Partnership in security and investment decisions. Mr. Schmuck brings strong interpersonal skills, having a firm understanding of management, operations and marketing. He has served on various community agencies and boards. His knowledge in agriculture has benefited the Loan Committee in analyzing farm credits since joining the Board in 2005.

**Class III Directors Term ending in 2012**

**John P. Furey** (age 58) has served as a Director of Consumers Bancorp, Inc. and Consumers National Bank since August of 1995. Mr. Furey is an Independent Member of the Audit Committee, the Compensation Committee (Chairman), the Executive Committee and the Loan Committee. He is currently Corporate President of Furey's Wheel World, Inc., located in Malvern, Ohio, an automotive retail sales business, serving in that capacity since 1974. He is a Licensed Pilot, Certified Flight Instructor and Aircraft Builder. During his career in the Automotive Industry he has served on several automotive and finance advisory boards and has a strong management background with extensive knowledge in automotive sales, marketing, financing and customer service. Over his fifteen year history as a director of the bank, Mr. Furey has served on various standing and ad hoc committees and has developed a valuable background in community banking.

**Thomas M. Kishman** (age 61) has served as a Director of Consumers Bancorp, Inc. and Consumers National Bank since March of 1995. Mr. Kishman is an Independent Member of the Audit Committee, the Compensation Committee, the Corporate Governance and the Nominating Committee (Chairman). He is currently the Co-owner of Kishman's IGA and GasNGo located in Minerva, Ohio, a retail grocery and fuel center. Mr. Kishman has spent his entire career in retail sales, working in the family's grocery business since 1964. He has a strong management background and is a dedicated member and supporter of the local community. Serving as past Chairman of the Audit Committee and as a member of Corporate Governance Committee for ten years, Mr. Kishman has a good understanding of banking risks and controls.

**Ralph J. Lober, II** (age 43) has served as a Director of Consumers Bancorp, Inc. and Consumers National Bank since 2008. Mr. Lober is currently the President and Chief Executive Officer, first joining the Company in 2007 as Executive Vice President and Chief Operating Officer. Mr. Lober was promoted to President and was appointed to Consumers National Bank Board of Directors in January 2008. In December 2008, Mr. Lober was appointed to Consumers Bancorp., Inc. Board of Directors. Mr. Lober currently is a Member of the Asset Liability Committee (Chairman) and Loan Committees. Having served as Cashier, Executive Vice President and Chief Financial Officer at Morgan Bank National Association from 1999 until May of 2007, Mr. Lober came to Consumers with a strong background in finance, funds management and operations. In addition, Mr. Lober spent the first part of his career at Mellon Bank before becoming the Internal Audit Manager at S.R. Snodgrass, A.C. from 1995 to 1999 where he developed, implemented and managed outsourced internal audit and compliance for community banks throughout Pennsylvania and Ohio.

## THE BOARD OF DIRECTORS AND

### ITS COMMITTEES

The Board of Directors conducts its business through meetings of the Board and its committees. Consumers Bancorp held 16 Board meetings during the 2010 fiscal year. All directors attended at least 75% of the total number of Consumers Bancorp Board meetings and meetings held by all committees of the Board on which they served during the 2010 fiscal year. Currently, each member of the Board of Directors of Consumers Bancorp also serves as a member of the Board of Directors of Consumers National Bank. Consumers National Bank held 14 Board of Directors meetings during the 2010 fiscal year, plus two days of Strategic Planning meetings. The Company has determined that all directors, except Mr. Hanna, Ms. McClellan and Mr. Lober are independent directors under the listing standards of the NASDAQ Stock Market Marketplace Rules and the additional independence requirements of the Company.

Although the Company does not have a formal policy with respect to Board member attendance at the annual meeting of shareholders, each member is encouraged to attend. All Board members attended the 2009 Annual Meeting of Shareholders.

Consumers Bancorp has an Asset/Liability Committee, Audit Committee, Compensation Committee, Corporate Governance Committee, Executive Committee, Loan Committee and Nominating Committee, each of which serves in dual capacity as a committee of Consumers Bancorp and Consumers National Bank.

The Asset/Liability Committee is comprised of Mr. Hanna, Mr. Johnson, Mr. Schmuck, Mr. Tonti and Mr. Lober, who serves as chairman. The Asset/Liability Committee is primarily responsible for ensuring both Consumers Bancorp and Consumers National Bank have adequate investment and funds management policies. The committee makes recommendations relative to the strategic direction of the Company and establishes key benchmarks relative to performance. The Asset/Liability Committee is also responsible for establishing procedures for monitoring the management of the investment portfolio and Consumers National Bank's liquidity, capital and interest rate risk position. During the fiscal year 2010, the Asset/Liability Committee met four times.

The Audit Committee is comprised of Mr. Furey, Mr. Kiko, Mr. Kishman, Mr. Schmuck and Mr. Tonti, who serves as chairman. The oversight function of the Audit Committee includes the review of all internal and external audit functions and the approval and engagement of the Company's independent auditors. The Board of Directors of Consumers Bancorp adopted a revised Audit Committee Charter in May 2010 which is attached as Exhibit B and is also available on the Company's website [www.consumersbank.com](http://www.consumersbank.com). The Board of Directors of Consumers Bancorp has determined that each member of the Audit Committee meets the independence standards of the NASDAQ Stock Market Marketplace Rules and that Mr. Tonti satisfies the requirements of a financial expert as defined by the applicable Security and Exchange Commission rules and regulations. The Report of the Audit Committee is on page 15 of this Proxy Statement. During fiscal year 2010, the Audit Committee met five times.

The Compensation Committee reviews overall bank compensation policies and executive management compensation. This committee is comprised of Mr. Kishman, Mr. Johnson, Ms. McClellan and Mr. Furey, who serves as chairman. The Report of the Compensation Committee is on page 16 of this Proxy Statement. Our compensation philosophy and objectives are described in the Compensation Discussion and Analysis section beginning on page 12 of this proxy statement. During the fiscal year 2010, the Compensation Committee met six times. The Compensation Committee Charter is available on the Company's website [www.consumersbank.com](http://www.consumersbank.com).

The Corporate Governance Committee is comprised of Mr. Kishman, Mr. Schmuck and Mr. Johnson, who serves as chairman. The committee is responsible for making independent recommendations to the Board of Directors as to best practices for Board governance and conducting an evaluation of Board performance. During the fiscal year 2010, the Corporate Governance Committee met once.

The Executive Committee reviews various executive and interim Board matters as outlined by its charter. This committee is comprised of Mr. Furey, Mr. Kiko, Mr. Tonti and Ms. McClellan, who serves as the chairperson. During the fiscal year 2010, the Executive Committee met six times.

The Loan Committee is comprised of Mr. Furey, Mr. Hanna, Mr. Lober, Ms. McClellan, Mr. Schmuck, and Mr. Kiko, who serves as chairman. The Loan Committee reviews loan requests and is responsible for approving loans that exceed an individual loan officer's or Internal Loan Committee's lending authority. During the fiscal year 2010, the Loan Committee met 27 times.

The Nominating Committee is comprised of Mr. Kiko, Mr. Johnson, Ms. McClellan and Mr. Kishman, who serves as chairman. The Board of Directors of Consumers Bancorp has determined that Mr. Johnson, Mr. Kiko and Mr. Kishman meet the independence standards of the NASDAQ Stock Market Marketplace Rules. In addition, the Board of Directors has determined that it is in the best interest of the Company to have Ms. McClellan, who owns or controls more than 20% of the Company's voting securities, serve on the Nominating Committee. During the fiscal year 2010, the Nominating Committee met once.

Under the terms of the Nominating Committee Charter the Nominating Committee is responsible for developing and implementing a process and guidelines for the selection of individuals for nomination to the Board of Directors and considering incumbent directors for nomination for re-election. The Nominating Committee will consider candidates for director who are recommended by shareholders in accordance with the Company's Code of Regulations and the Board Addition/Replacement Procedures found in the Board Supervision Policy. Candidates must be individuals with a good reputation who demonstrate civic character, business success and community involvement. They must be willing to commit their time to Board and committee meetings, keep apprised of banking issues and complete continuing education courses. The Nominating Committee is responsible for the selection of the final slate of nominees for election to the Board of Directors. Those nominees recommended by the Committee are then submitted to the Board of Directors for approval. The Nominating Committee Charter is available on the Company's website [www.consumersbank.com](http://www.consumersbank.com).

Shareholders desiring to nominate a candidate for election as a director at the 2011 Annual Meeting of Shareholders other than for inclusion in Consumers Bancorp's proxy statement and form of proxy must deliver written notice to the Secretary of Consumers Bancorp, at its executive offices, 614 East Lincoln Way, Minerva, Ohio 44657, not later than August 7, 2011 or such nomination will be untimely. Consumers Bancorp reserves the right to exercise discretionary voting authority on the nomination if a shareholder has failed to submit the nomination by August 7, 2011 or if the candidate does not meet criteria set forth in the Company's Amended and Restated Regulations.

#### **Board Leadership Structure; Role in Risk Oversight**

In accordance with our regulations, the Board elects our Chairman and Chief Executive Officer, or CEO, and each of these positions may be held by the same person or may be held by different people. Currently the offices of Chairman and CEO are separated. The Board believes that the separation of offices of the Chairman and CEO is appropriate at this time as it allows our CEO to focus primarily on management and operating responsibilities.

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. We face a number of risks, including economic risks, financial risks, legal and regulatory risks, and others, such as the impact of competition. Management is responsible for the day-to-day management of the risks that we face, while the Board, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, the Board is responsible for satisfying itself that the risk management processes designed and implemented by management are adequate and functioning as designed.

**Director Compensation**

The Compensation Committee annually reviews and recommends to the Board of Directors the proposed director fees after consideration of information from peer surveys, past compensation practices and the Company's performance. The Board is responsible for approving the fees for attending Board meetings and committee meetings. The Board believes the fees are competitive with the fees paid by other peer banks of a comparable size and will ensure the Company attracts and retains qualified Board members.

Non-employee directors received an annual retainer of \$2,000 and are compensated for each meeting of the Consumers National Bank Board of Directors and each committee meeting they attend. Compensation for attendance at a Board of Directors meeting was \$800 per meeting. The following table details the fees paid to each non-employee director for attendance at committee meetings:

	Asset/ Liability	Audit	Compensation	Corporate Governance	Executive	Loan	Nominating
Committee Chair	\$ *	\$ 300	\$ 200	\$ 200	\$ *	\$ 200	\$ 200
Committee Member	\$ 100	\$ 200	\$ 100	\$ 100	\$ 200	\$ 100	\$ 100

\* Denotes committee chaired by an employee of the Company

In addition, an incentive pool based on overall Company profitability was available to non-employee directors. For the 2010 fiscal year, the Compensation Committee selected net income of \$2.1 million as the corporate performance target. A reduced incentive was available if the Company achieved at least 95.0% of the net income target, or net income of \$2.0 million. Reported net income results for the 2010 fiscal year were above 95.0% of the targeted level therefore, an incentive was earned by each non-employee director as part of this program.

Ms. McClellan and Mr. Lober are employees of Consumers National Bank and received no additional compensation for their service as a director.

The following table summarizes the compensation earned by or awarded to each non-employee director who served on the Board during the 2010 fiscal year. The compensation received by Mr. Lober is shown in the Summary Compensation Table which is included under the Executive Officers section in the following pages.

Name	Fees earned or paid in cash (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
John P. Furey	\$ 19,300	\$ 1,143	\$	\$	\$ 20,443
James V. Hanna	16,000	1,143			17,143
David W. Johnson	14,300	1,143			15,443
James R. Kiko, Sr.	21,800	1,143			22,943
Thomas M. Kishman	15,000	1,143			16,143
Harry W. Schmuck, Jr.	21,200	1,143			22,343
John E. Tonti	16,400	1,143			17,543

At the beginning of the 2011 fiscal year, the director board meeting and committee meeting fees remained the same as the previous fiscal year. During the 2011 fiscal year, the Compensation Committee will complete a peer study review of director fees to determine if any changes will be recommended. A total incentive pool for all non-employee directors of \$10,000 has been established that will be paid if certain corporate performance targets are achieved.

## PROPOSAL 2

### ADOPTION OF CONSUMERS BANCORP 2010 OMNIBUS INCENTIVE PLAN

The Board of Directors is requesting that shareholders approve the adoption of the Consumers Bancorp 2010 Omnibus Incentive Plan (the Plan). On September 7, 2010, the Board adopted the Plan, subject to approval by the Company's shareholders. Set forth below is a summary of the material features of the Plan. A copy of which is attached to this Proxy Statement as Exhibit A, and the following summary is qualified in its entirety by reference to the Plan.

The purpose of the Plan is to promote alignment between key employee's performance and Consumers' shareholder interests by motivating performance through the award of stock-based incentive compensation. The Plan is intended to attract and retain talented employees and directors to the Company, motivate such individuals by means of performance-related incentives to achieve longer-range performance goals, and enable such individuals to participate in the long-term growth and financial success of the Company. The Plan serves these purposes by making equity-based awards ( Awards ) available for grant, either singly or in combination, to eligible participants in the form of stock options (both nonqualified and incentive stock options), stock appreciation rights, restricted stock, restricted stock units, performance awards, and other stock-based awards.

#### Administration

The Board of Directors will determine the types of Awards the Company may grant in any fiscal year and the Plan will be administered by the Compensation Committee. The Compensation Committee will be comprised of at least two directors, each of whom will be a non-employee director (within the meaning of Rule 16b-3 under the Exchange Act). The Compensation Committee will select the participants in the Plan, determine the sizes of Awards and determine the terms and conditions of the awards. The Plan is designed to provide incentive compensation to key employees and non-employee directors over a multi-year period in alignment with the interests of Consumers' shareholders by motivating and rewarding actions that increase or create shareholder value. The Compensation Committee will determine the level of incentive compensation based on an evaluation of competitive factors in conjunction with the total compensation of Consumers' key employees. Each Award will be evidenced by a written award agreement setting forth the applicable terms and provisions.

#### Eligibility

The Compensation Committee may select any employee of the Company and its affiliates, any prospective employee and non-employee directors of the Company and its affiliates to receive Awards under the Plan. As of June 30, 2010, there were seven non-employee directors of the Company and approximately 109 employees of the Company and its affiliates who are eligible for selection to participate in the Plan.

#### Available Common Shares

The aggregate number of common shares available for the grant of Awards under the Plan will not exceed, at any time, 100,000 shares; and the aggregate number of shares available for the grant of Awards in any fiscal year shall not exceed 40,000. Common shares issued under the Plan may consist of treasury shares, authorized but unissued common shares not reserved for any other purpose or common shares purchased by us or on our behalf in the open market for such purpose. Upon the grant of an Award, we will reduce the number of common shares available for issuance under the Plan by an amount equal to the number of common shares subject to such Award.

In the event of any common share dividend, common share split, recapitalization, merger, reorganization, consolidation, combination, spin-off, distribution of assets to shareholders, exchange of common shares or any other change affecting the common shares, the Compensation Committee will make such substitutions and adjustments as it deems equitable and appropriate to (1) the number of common shares that may be issued under the Plan, (2) any common share-based limits imposed under the Plan and (3) the exercise price, number of common shares and other terms or limitations applicable to outstanding Awards.

#### Types of Awards

*Stock Options.* The Compensation Committee has the authority to grant Incentive Stock Options, Nonqualified Stock Options, or to grant both types of Options. The exercise price of any Option granted will be at least equal to the fair market value of Consumers common shares on the date of the grant. As a result, stock options reward the participant only if the price of Consumers stock increases after the date of the grant. The Compensation Committee will determine the term of the Option (which may not exceed ten years), the vesting terms and conditions and any other terms and conditions of the Option, all of which will be reflected in the related award agreement. The maximum number of shares with respect to which Incentive Stock Options may be granted under the Plan is 20,000. The maximum number of shares with respect to which Options may be granted to one participant in any fiscal year is 20,000.



Upon exercise of an option, the participant must pay the full exercise price in cash, by tendering previously-acquired common shares, by a cashless exercise, or through any other method approved by the Compensation Committee.

*Stock Appreciation Rights.* Stock Appreciation Rights ( SARs ) entitle the participant to receive a payment based on the appreciation in the value of Consumers stock. The amount payable to the participant will equal the appreciation in the fair market value of Consumers stock from the grant date to the participant's date of exercise of the SAR. The exercise price of any SAR will be at least equal to the fair market value of the common shares on the date the SAR is granted. The Compensation Committee will also determine the term of the SAR (which may not exceed ten years), the vesting terms and conditions and any other terms and conditions of the SAR, all of which will be reflected in the related award agreement. The maximum number of shares with respect to which SARs may be granted to one participant in any fiscal year is 20,000. The Compensation Committee will determine whether a SAR will be settled in common shares, cash or a combination thereof.

*Restricted Stock and Restricted Stock Units.* Restricted stock programs promote immediate stock ownership and the forfeiture provisions can aid in the retention of key employees. Restricted stock consists of common shares that are issued to a participant but are subject to forfeiture based upon satisfaction of certain terms, conditions and restrictions. The restrictions and forfeiture provisions lapse after the specified period of time and/or after the specified performance is achieved.

Restricted stock unit awards are a form of deferred compensation subject to the provisions of Section 409A and are nonforfeitable as certain corporate and/or individual performance targets are met. At the end of the restriction period, vested restricted stock unit awards are paid to the participant, either in Consumers stock, cash, or a combination thereof. The Compensation Committee will determine the terms, conditions and restrictions applicable to each Restricted Stock or Restricted Stock Units Award.

*Performance-Based Awards.* The Plan permits for the grant of Performance Awards in the form of cash or Consumers stock subject to the attainment of such performance criteria as the Compensation Committee may determine from time to time during a specified performance period. The maximum number of shares which may be awarded in respect of a single performance period is 20,000 shares, or in the event such Award is paid in cash, the equivalent cash value thereof.

*Other Stock-Based Awards.* The Plan permits for the grant of Other Stock-Based Awards in the form of Consumers stock, or denominated, payable or valued in whole or in part by reference to Consumers stock as deemed by the Compensation Committee to be consistent with the purposes of the Plan. The Compensation Committee will determine the terms, conditions and restrictions applicable to each Other Stock-Based Award.

#### **Amendment and Termination**

The Board may alter, amend, or discontinue the Plan, but no amendment, alteration or discontinuation may impair the rights of a participant under an outstanding award without the participant's consent. The Company will obtain shareholder approval of any Plan amendment (i) to the extent necessary or desirable to comply with applicable laws, (ii) if the amendment would materially increase the benefits for participants and (iii) if the amendment would materially increase the number of securities issued under the Plan or materially modify the requirements for participation in the Plan. The Compensation Committee may amend the terms of any award, prospectively or retroactively, but no award amendment may impair a participant's rights without his or her consent. Except in the case of certain permitted adjustments, the terms of outstanding awards may not be amended to reduce the exercise or grant price to less than the original exercise or grant price without shareholders' approval.

#### **Change in Control**

Unless otherwise determined by the Compensation Committee at the time of granting an Award, in the event of a change of control, as defined in the Plan, all outstanding Awards will become fully exercisable and vested, as applicable, all restrictions will lapse, and all performance goals shall be deemed satisfied at target. However, to the extent any outstanding Award is converted, assumed or replaced by the resulting entity, (i) outstanding Awards with performance goals will be converted as if the target performance had been achieved, (ii) each Performance Award or Performance Compensation Award with service requirements shall continue to vest during the applicable period, and (iii) all other Awards shall continue to vest during the remaining period set forth in the award agreement. Also, to the extent any outstanding Award is converted, assumed or replaced by the resulting entity, if a participant's service or employment is terminated without cause or for good reason (as defined in the Plan) during the two years following a change in control, then all outstanding Awards held by the participant shall become fully exercisable and vested, and all restrictions shall lapse.

**Transferability**

No Award may be sold, assigned, pledged, or otherwise transferred by a participant other than by will or the laws of descent and distribution.

**Dodd-Frank Mandatory Executive Compensation Clawback**

The Dodd-Frank Wall Street Reform and Consumer Protection Act requires that every public company adopt a policy whereby, in the event of a restatement, the company will recover from current and former executives any incentive-based compensation, for the three years preceding the restatement, that would not have been awarded under the restated financial statements. The individual Award Agreements that will be issued to Participants under the Plan will include a provision to ensure compliance with these regulations once they are promulgated.

**Effective Date and Term**

The Plan will become effective as of the date of its approval by the Board of Directors, subject to approval by the shareholders and, unless earlier terminated, will continue until September 7, 2020.

**Vote Required**

The affirmative vote of holders of a majority of the outstanding common shares represented at the Annual Meeting, in person or by proxy, and entitled to vote on the proposal is required to approve the adoption of the Plan. Abstentions and broker non-votes will have the same effect as a vote against this proposal.

**The Board of Directors recommends that the shareholders vote FOR the proposal  
to approve the adoption of the Consumers Bancorp 2010 Omnibus Incentive Plan.**



**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS  
AND MANAGEMENT**

**Security Ownership of Certain Beneficial Owners**

Generally, under the rules of the Securities and Exchange Commission, a person is deemed to be the beneficial owner of securities, such as common shares, if such person has or shares voting power or investment power in respect of such securities. In addition, a person is deemed to be the beneficial owner of a security if he or she has the right to acquire such voting or investment power over the security within sixty days, for example, through the exercise of a stock option. Information is provided below about each person known to the Company to be the beneficial owner of more than 5% of the outstanding shares of the Company's common stock as of June 30, 2010.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership as of June 30, 2010	Percent of Common Shares
Laurie L. McClellan	432,512(1)	21.30%
28 Tepee Drive		
Minerva, Ohio 44657		
James V. Hanna	158,384(2)	7.77%
14269 Lincoln S.E.		
Minerva, OH 44657		

(1) Includes 426,206 shares owned by or jointly with family members, trusts, various corporations and partnerships.

(2) Includes 154,494 shares owned by or jointly with family members, trusts, various corporations and partnerships.

**Security Ownership of Management**

The following table shows the beneficial ownership of the Company's common stock as of June 30, 2010 for each director and named executive officers of the Company and for all current directors and executive officers as a group.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Common Shares (if 1% or Greater)
John P. Furey	29,701(1)	1.46%
James V. Hanna	158,384(2)	7.77%
David W. Johnson	11,252(3)	*
James R. Kiko, Sr.	8,166(4)	*
Thomas M. Kishman	12,702(5)	*
Ralph J. Lober, II	7,139(6)	*
Laurie L. McClellan	432,512(7)	21.30%
Harry W. Schmuck, Jr.	6,521	*
John E. Tonti	6,420(8)	*
Paul B. Hugenberg, III	241	*
Renee K. Wood	1,267(9)	*
All directors and executive officers as a group (14 persons)	677,216	33.23%

\* Denotes less than one percent of outstanding shares.

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- (1) Includes 25,301 shares owned by or jointly with family members or trusts.
- (2) Includes 154,494 shares owned by or jointly with family members, trusts, various corporations and partnerships.
- (3) Shares are pledged as collateral.
- (4) Includes 2,534 shares owned by family members or partnerships.
- (5) Includes 4,526 shares owned by or jointly with family members.
- (6) Shares are owned jointly with family members.
- (7) Includes 426,206 shares owned by or jointly with family members, trusts, various corporations and partnerships.
- (8) Includes 4,100 shares held in a trust.
- (9) Includes 667 shares owned jointly with family members.

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## EXECUTIVE OFFICERS

The following information is provided with respect to each person who currently serves as an executive officer of the Company.

**Stormie Gross** (age 53) serves as Senior Vice President Risk Management and joined the Company in January 2007. Ms. Gross served as Vice President Risk Manager, Compliance Officer from January 2007 to January 2010 and was promoted to Senior Vice President Risk Management in January 2010. Ms. Gross has over 28 years of banking experience with 21 of them in the risk management and credit areas. Ms. Gross also served as the Internal Audit Manager from 2005 to 2006 and Risk Management Loan Review Officer from 2003 to 2005.

**Paul B. Hugenberg, III** (age 38) serves as Senior Vice President, Chief Information Officer and joined the Company in May 2005. Mr. Hugenberg has worked in banking for the past 13 years and joined Consumers as the Chief Information Officer and was promoted to Senior Vice President, Chief Information Officer in January 2010. His previous occupations and employment include Senior Manager, Information Risk and Performance Services with Crowe Chizek and Company LLC from 2003 to 2005 and Adjunct Faculty, Stark State Technical College from 2007 to 2008.

**Philip M. Suarez** (age 61) has served as Executive Vice President, Chief Credit Officer since January 2010 and served as Chief Credit Officer from July 2009 to January 2010. Mr. Suarez joined Consumers in 2000 as Senior Vice President and Senior Loan Officer. His prior banking experience covers over 25 years, including many years of commercial banking in the Chicago and Youngstown areas.

**Larry Marcus** (age 51) has served as Senior Vice President and Senior Loan Officer since joining the Bank in July 2009. Mr. Marcus came to the Bank with 23 years of experience which include Vice President of Finance with The Stark Development Board from 1999 to July 2009 where he was responsible for the lending area of Small Business Association loan programs, coordinating with bankers, professionals and small business owners. Prior banking experience includes commercial lending from 1986 to 1999 with an emphasis in small and middle markets.

**Renee K. Wood** (age 39) serves as Senior Vice President, Chief Financial Officer and Treasurer, having been appointed to this position in January 2010. Ms. Wood served as Chief Financial Officer and Treasurer beginning in July 2005 and joined Consumers in January 2005 as Controller. Prior to joining Consumers, Ms. Wood served as Vice President, Controller of the Finance Department for Unizan Bank, National Association from 2002 to 2005. Her 16 years of experience have been in senior or management level positions in the accounting or finance areas of banking.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### Introduction and Overview

This Compensation Discussion and Analysis provides information regarding the compensation awarded to, earned by, or paid to the named executive officers serving as of June 30, 2010 whose compensation is detailed in this proxy statement. These named executive officers are the president and chief executive officer, chief financial officer and the chief information officer. The Board of Directors has delegated to the Compensation Committee responsibility for the oversight and administration of compensation of the Company. The committee reviews and recommends company benefit and incentive plans, as well as, reviewing the individual performance of the chief executive officer and executive management.

#### Compensation Philosophy and Objectives

The objective of the Company's compensation program is to fairly compensate the executive officers in light of their individual performances and their contributions to the performance of the Company, thereby aligning executives' incentives with shareholder value creation. The compensation philosophy is designed to reward effort and achievement by the officers and provide them with compensation targeted at market competitive levels. The Company's compensation program includes the following core components: base salary, cash incentive compensation, long-term compensation and certain change of control agreements. The Compensation Committee manages all components on an integrated basis to achieve the following objectives: to attract and retain highly qualified management, to provide shorter-term incentive compensation that varies directly with the Company's financial performance and to focus management on both annual and long-term goals. The Company believes that, by setting and adjusting these elements, it has the flexibility to offer appropriate incentives to its executive officers.

During the 2010 fiscal year, the Compensation Committee retained Meyer-Chatfield Compensation Advisors in order to review executive officers compensation and to make recommendations regarding the structure of these compensation packages.

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Comparison information was gathered from public data for peer banks and from regional and national compensation survey information. Some of the resources used to compare the compensation offered by peer banks were American Bankers Association, Bank Administration Institute, Watson Wyatt Data Services and CompAnalyst. The primary factors used to determine an appropriate

community bank peer group included, asset size, per capita income of the surrounding market and general performance metrics, such as return on equity (ROE). An analysis of ROE as of the third quarter of 2009, demonstrated that the performance of Consumers was within the high performing group when compared to publicly traded peer banks with assets below \$300 million. The next higher asset size group of \$300 to \$500 million was considered when no comparable data was available for the job responsibilities of a particular executive or when the job duties did not align with Consumers' executive officer positions.

Based on Meyer-Chatfield's Executive Compensation study, the Compensation Committee adopted the philosophy to target executive compensation at the midpoint of compensation paid to similarly situated executive officers at comparable high performing peer banks within our region and asset size. Individual opportunities may be above or below this general target level at times for a variety of reasons, including individual and corporate performance, recruiting and retention reasons.

In addition, as part of the compensation review, Meyer-Chatfield noted that there was not a long-term compensation plan in place for all executive officers. The Compensation Committee recognizes the need for a performance incentive plan that ties long-term compensation in the form of equity awards that will encourage long-term strategic planning. Additionally, a long-term equity compensation plan will allow the Company to recruit and retain quality management. As a result of these considerations, the Compensation Committee recommended to the Board of Directors the approval of the Consumers Bancorp 2010 Omnibus Incentive Plan.

### Components of Compensation

#### *Base Salary*

Base salary is a major factor in attracting and retaining key personnel and therefore is the primary component of our executive officer's compensation. In setting an officer's base salary, the Company considers parameters set by its size and complexity and the salaries offered by peers. Based on Meyer-Chatfield's Executive Compensation study, the Compensation Committee adopted the philosophy to target executive compensation to the midpoint of high performing banks within our region and asset size. In order to develop individualized plans to achieve total compensation at the midpoint of high performing banks within our region and asset size, an average of the base gap and total compensation gap was calculated, and existing long-term compensation and targeted long-term compensation was considered for each executive officer. The Company's performance as measured by its results compared to previous years is also considered in determining the overall adjustments to executive officers' salaries. Specific salaries are adjusted to reflect the contributions of the executive officer to the Company's operations and the accomplishment of its long-term goals.

Based on a review of the company's strategic direction, individual career path objectives and succession planning in conjunction with the broad databases and other publicly available information, the Company believes that its executive compensation practices are in line with its compensation philosophy and objectives described above.

#### *Incentive Compensation*

On January 1, 2008, an annual incentive compensation program went into effect in which all participants are eligible to earn incentive compensation based on corporate financial performance, departmental, and individual goals as determined by each participant's manager. All employees, except seasonal and temporary employees, are eligible to participate in the annual incentive plan. Positions are classified into various levels according to overall responsibilities within the organization and the impact each position has on the organization's overall financial performance.

For the 2010 fiscal year, the Compensation Committee selected net income as the corporate performance target for the plan. The targeted net income for the 2010 fiscal year was \$2.1 million, with a reduced bonus amount available for payment if the Company achieved at least 95.0% of the target, or net income of \$2.0 million. Reported net income results for the 2010 fiscal year were above 95.0% of the targeted level of financial performance. Based on these net income results, there was \$50,000 available company wide based on corporate performance and \$50,000 available company wide based on individual and departmental goals.

The table below shows how each plan component for 2010 is weighted when evaluating each of the named executive officers:

	Corporate Performance	Individual/ Departmental Goals
Ralph J. Lober, II	75.0%	25.0%
Renee K. Wood	50.0%	50.0%

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Paul B. Hugenberg, III

50.0%

50.0%

The total amount awarded for the incentive plan for each executive officer is disclosed under the Bonus column of the Summary Compensation Table.

### *Long-term Compensation*

Long-term compensation includes a qualified retirement plan in the form of a 401(k) Plan and a non-qualified Salary Continuation Program. The Company provides safe harbor contributions under the 401(k) Plan, matching up to 100% of the first 4.0% contributed by the employee. The amount contributed on behalf of the executive officers is determined in accordance with the provisions of the plan applicable to all employees. The Salary Continuation Plan is designed to retain executive and senior management personnel. Entrance to the Salary Continuation Plan is limited and is subject to meeting performance criteria, established by the Compensation Committee and approved by the Board of Directors. The Company expects these plans to promote longevity with the Company and discourage turnover among its executive officers and other employees.

### *Change of Control Agreements*

The Company recognizes change of control agreements can help it to attract and keep talented executives and can minimize the impact on key executives of a job loss due to a change of control. In the event a transaction that would lead to a change of control is proposed, such agreements can help assure the executives analyze the transaction without undue focus on its effect upon them personally. In addition, if a transaction would occur, change of control agreements can encourage key executives to stay and help accomplish a smooth transition. As a result, the Board believes offering such agreements to certain executives who are important to the Company's operation and whose jobs may be important to our stockholders through the use of competitive and equitable executive compensation in a balanced and reasonable manner, for both the short and long term.

We do not have a Nominating/Corporate Governance Committee primarily because of capital constraints, our early operational state and the size of our current Board make constituting and administering such a committee excessively burdensome and costly. The traditional responsibilities of such a committee are handled by the Board as a whole. Candidates for director nominees are reviewed in the context of the current composition of the Board, the Company's operating requirements and the long-term interests of its stockholders. In conducting this assessment, the Board considers skills, diversity, age, and such other factors as it deems appropriate given the current needs of the Board and the Company, to maintain a balance of knowledge, experience and capability. The Board's process for identifying and evaluating nominees for director, including nominees recommended by stockholders, involves compiling names of potentially eligible candidates, conducting background and reference checks, conducting interviews with the candidate and others (as schedules permit), meeting to consider and approve the final candidates and, as appropriate, preparing an analysis with regard to particular recommended candidates. With respect to the nominees for election in 2011, each of our directors participated in the decisions relating to the nomination of directors.

The Board follows the written code of ethics that applies to its principal executive officers, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

### *Board Leadership Structure*

Mr. Calvert serves as both principal executive officer and Chairman of the Board. The Company does not have a lead independent director. Messrs. Cox and Marshall serve as independent directors who provide active and effective oversight of our strategic decisions. As of the date of this filing, the Company has determined that the leadership structure of the Board has permitted the Board to fulfill its duties effectively and efficiently and is appropriate given the size and scope of the Company and its financial condition.

### *The Board's Role in Risk Oversight*

As a smaller company, our executive management team, consisting of Messrs. Calvert, Code and Provenzano, are also members of our Board. The Board, including our executive management members and independent directors, is responsible for overseeing our executive management team in the execution of its responsibilities and for assessing the Company's approach to risk management. The Board exercises these responsibilities on an ongoing basis as part of its meetings and through its committees. Each member of the management team has direct access to the other Board

members, and the Board committees, so to ensure that all risk issues are frequently and openly communicated. The Board closely monitors the information it receives from management and provides oversight and guidance to our executive management team regarding the assessment and management of risk. For example, the Board regularly reviews the Company's critical strategic, operational, legal and financial risks with management to set the tone and direction for ensuring appropriate risk taking within the business.

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## Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, certain officers and persons holding 10% or more of the Company's Common stock to file reports regarding their ownership and regarding their acquisitions and dispositions of our Common stock with the SEC. Such persons are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

To our knowledge, based solely upon review of Forms 3, 4, and 5 (and amendments thereto) and written representations provided to us by executive officers, directors and stockholders beneficially owning 10% or greater of the outstanding shares, we believe that such persons filed pursuant to the requirements of the SEC on a timely basis, except that (i) Mr. Cox did not timely make one filing on Form 4 with respect to an option to purchase Common stock granted to him pursuant to the stock option plan approved by our stockholders in 2007 (the "2007 Plan"; see "Equity Compensation Plans – 2007 Equity Incentive Plan" below); and (ii) Mr. Marshall did not timely make one filing on Form 4 with respect to an option to purchase Common stock granted to him pursuant to the 2007 Plan.

Prior to the filing of this Information Statement, Mr. Cox and Mr. Marshall have made filings on Form 4 to report these transactions.

## EXECUTIVE COMPENSATION

The following table sets forth all compensation earned for services rendered to the Company in all capacities for the fiscal years ended December 31, 2010 and 2009, by its principal executive officer, principal financial officer, and two of its other executive officers who served in such capacities as of the end of fiscal 2010, collectively referred to as the "Named Executive Officers."

Summary Compensation Table

Name and Principal Positions	Year	Salary	Option Awards (1)	All other Compensation	Total
Dennis P. Calvert, Chairman, Chief Executive Officer and President	2009	\$216,832 (2)	—	12,600 (3)	\$229,432
	2010	\$238,515 (2)	\$100,000 (4)	12,600 (3)	\$351,115
Kenneth R. Code, Chief Technology Officer	2009	\$216,832 (5)	—	12,600 (3)	\$229,432
	2010	\$238,515 (5)	\$100,000 (4)	12,600 (3)	\$351,115
Charles K. Dargan II, Chief Financial Officer	2009	\$64,000 (6)	\$60,300 (7)	—	\$124,300
	2010	\$64,000 (6)	\$75,400 (4)(7)	—	\$139,400
Joseph Provenzano, Corporate Secretary	2009	\$91,476 (8)	—	3,600 (3)	\$95,076
	2010	\$100,624 (8)	\$100,000 (4)	3,600 (3)	\$204,224

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- (1) The Company recognizes 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 method. The amounts in the “Stock and Option Awards” column reflect the aggregate grant date fair value of awards of stock or options, computed in accordance with SEC rules. These amounts do not represent the actual amounts paid to or realized by any of the recipients during fiscal 2010. The assumptions used to calculate these amounts are discussed in Note 10 to the Company’s financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2010.
  - (2) At December 31, 2008, we had accrued and unpaid salary to Mr. Calvert in the amount of \$27,229. In 2009 the employment agreement for Mr. Calvert provided for a base salary of \$216,832. During 2009, we made payments totaling \$170,121, of which \$27,229 related to 2008 accrued salary, \$120,546 related to 2009 accrued salary and the remaining \$22,346 was to reimburse business expenses. At December 31, 2009, we had accrued and unpaid salary to Mr. Calvert in the amount of \$96,286. In 2010 the employment agreement for Mr. Calvert provided for a base salary of \$238,515. During 2010, we made payments totaling \$174,581, of which \$96,286 related to 2009 accrued salary, \$75,2482 related to 2010 accrued salary and the remaining \$3,047 was to reimburse business expenses. Additionally, Mr. Calvert agreed to convert \$163,267 of accrued and unpaid 2010 salary into 494,750 shares of our Common stock at a price of \$0.33 per share. See “Employment Agreements—Dennis P. Calvert” and “Outstanding Equity Awards at Fiscal Year-End” below for more details.
  - (3) Consists of health insurance premium reimbursements and automobile allowance payments.
  - (4) On February 1, 2010, the Company’s Compensation Committee issued options pursuant to the Company’s 2007 Equity Incentive Plan to the executives above. The fair value of these options totaled \$330,000, of which \$100,000 was issued to each of Mr. Calvert, Mr. Code and Mr. Provenzano and the remaining \$30,000 was issued to Mr. Dargan. An option for 200,000 shares was issued to each of Mr. Calvert, Mr. Code and Mr. Provenzano and the remaining options to purchase an aggregate 60,000 shares were issued to Mr. Dargan. Each option’s exercise price is \$0.575 per share, which price was \$0.075 more than the \$0.50 closing price of the Company’s Common stock on the date of grant.
  - (5) At December 31, 2008, we had accrued and unpaid salary to Mr. Code in the amount of \$10,835. In 2009 the employment agreement for Mr. Code provided for a base salary of \$216,832. During 2009, we made payments totaling \$171,000, of which \$10,835 related to 2008 accrued salary, \$85,039 related to 2009 accrued salary and \$75,126 was to reimburse business expenses. At December 31, 2009, we had accrued and unpaid salary to Mr. Code in the amount of \$131,793. In 2010 the employment agreement for Mr. Code provided for a base salary of \$238,515. During 2010, we made payments totaling \$218,394, of which \$131,793 related to 2009 accrued salary, and \$58,246 related to 2010 accrued salary, and the remaining \$28,355 was to reimburse business expenses. Additionally, Mr. Code agreed to convert \$180,269 of accrued and unpaid

2010 salary into 546,269 shares of our Common stock at a price of \$0.33 per share. See “Employment Agreements—Kenneth R. Code” and “Outstanding Equity Awards at Fiscal Year-End” below for more details.

- (6) In 2009 Mr. Dargan’s engagement agreement provided for base compensation of \$64,000. We did not make any payments to Mr. Dargan in 2009 and as of December 31, 2009, \$68,000 was accrued and unpaid, \$4,000 of which related to 2008. In 2010, Mr. Dargan’s engagement agreement provided for base compensation of \$64,000. During 2010, Mr. Dargan agreed to convert \$40,000 of accrued and unpaid obligations into a stock option to purchase 200,000 shares of our Common stock at an exercise price of \$0.30 per share. We did not make any payments to Mr. Dargan in 2010 and as of December 31, 2010, \$92,000 remained accrued and unpaid. See “Employment Agreements – Charles K. Dargan II” and “Outstanding Equity Awards at Fiscal Year-End” below for more details.
- (7) Pursuant to Mr. Dargan’s engagement agreement during the year ended December 31, 2009, we granted options to purchase an aggregate 150,000 shares of our Common stock. These options are exercisable at various exercise prices ranging between \$0.28 and \$0.70 depending upon their respective dates of grant, and resulted in an aggregate fair value of \$60,300. Each option of fully vested upon grant and is exercisable for ten years. During the year ended December 31, 2010, we granted options to purchase an aggregate 120,000 shares of our Common stock to our Chief Financial Officer, pursuant to the terms of our engagement agreement with him. These options are exercisable at various exercise prices ranging between \$0.24 and \$0.50 depending upon their respective dates of grant, and resulted in an aggregate fair value of \$45,400. Each option of fully vested upon grant and is exercisable for ten years. See “Employment Agreements – Charles K. Dargan II” and “Outstanding Equity Awards at Fiscal Year-End” below for more details.
- (8) At December 31, 2008, we had accrued and unpaid salary for Mr. Provenzano in the amount of \$31,662. In 2009 Mr. Provenzano’s engagement agreement provided for base compensation of \$91,476. During 2009 we made payments to Mr. Provenzano totaling \$94,987, of which \$31,662 related to 2008 accrued salary, \$47,690 related to 2009 accrued salary and \$15,635 was to reimburse business expenses. At December 31, 2009, we had accrued and unpaid salary for Mr. Provenzano in the amount of \$43,786. In 2010, Mr. Provenzano’s engagement agreement provided for base compensation of \$100,624. During 2010, we made payments totaling \$96,561, of which \$43,786 related to 2009 accrued salary, \$41,384 related to 2010 accrued salary and the remaining \$11,391 was to reimburse business expenses. Additionally, during 2010, Mr. Provenzano agreed to convert \$59,240 of accrued and unpaid obligations into a stock option to purchase 296,203 shares of our Common stock at an exercise price of \$0.30 per share. As of December 31, 2010, there were no unpaid salary or expense items owed to Mr. Provenzano. See “Employment Agreements – Joseph Provenzano” and “Outstanding Equity Awards at Fiscal Year-End” below for more details.

## Employment Agreements

Dennis P. Calvert

We entered into an employment agreement dated as of April 30, 2007 with Mr. Calvert (the “2007 Calvert Employment Agreement”). The previous employment agreement with Mr. Calvert, dated December 11, 2002, was terminated.

The 2007 Calvert Employment Agreement provides that Mr. Calvert will serve as our President and Chief Executive Officer, and receive (i) base compensation of \$184,800 annually (with an automatic 10% annual increase); and (ii) a bonus in such amount as the Compensation Committee may determine from time to time. In addition, Mr. Calvert will be eligible to participate in incentive plans, stock option plans, and similar arrangements as determined by our Board. When such benefits are made available to our senior employees, Mr. Calvert is also eligible to receive health insurance premium payments for himself and his immediate family, a car allowance of \$800 per month, paid vacation of four weeks per year plus an additional two weeks per year for each full year of service during the term of the agreement up to a maximum of ten weeks per year, life insurance equal to three times his base salary and disability insurance.

Pursuant to the 2007 Calvert Employment Agreement, Mr. Calvert was granted an option (the “Option”) to purchase 7,733,259 shares of our Common stock. The Option is a non-qualified stock option, exercisable at \$0.18 per share for ten years from the date of grant, and vested over time as follows:

First anniversary of the date of the Agreement	2,577,753
Second anniversary of the date of the Agreement	2,577,753
Third anniversary of the date of the Agreement	2,577,753

The 2007 Calvert Employment Agreement has a term of five years, unless earlier terminated in accordance with its terms. The 2007 Calvert Employment Agreement provides that Mr. Calvert’s employment may be terminated by the Company due to disability, for cause or without cause. “Disability” as used in the 2007 Calvert Employment Agreement means physical or mental incapacity or illness rendering Mr. Calvert unable to perform his duties on a long-term basis (i) as evidenced by his failure or inability to perform his duties for a total of 120 days in any 360 day period, or (ii) as determined by an independent and licensed physician whom Company selects, or (iii) as determined without recourse by the Company’s disability insurance carrier. If Mr. Calvert’s employment is terminated for cause he will be eligible to receive his accrued base compensation and vacation compensation through the date of termination. If Mr. Calvert’s employment is terminated without cause, then he will be eligible to receive the greater of (i) one year’s compensation plus an additional one half year for each year of service since the effective date of the employment agreement or (ii) one year’s compensation plus an additional one half year for each year remaining in the term of the agreement.

The 2007 Calvert Employment Agreement requires Mr. Calvert to keep certain information confidential, not to solicit customers or employees of the Company or interfere with any business relationship of the Company, and to assign all inventions made or created during the term of the 2007 Calvert Employment Agreement as “work made for hire”.

Kenneth R. Code

As part of the completion of the acquisition of the BioLargo technology from IOWC, we entered into an Employment Agreement dated as of April 30, 2007 with Mr. Code (the “Code Employment Agreement”).

The Code Employment Agreement provides that Mr. Code will serve as our Chief Technology Officer, and receive (i) base compensation of \$184,800 annually (with an automatic 10% annual increase); and (ii) a bonus in such amount as the Compensation Committee may determine from time to time. In addition, Mr. Code will be eligible to participate in incentive plans, stock option plans, and similar arrangements as determined by the Board. When such benefits are made available to our senior employees, Mr. Code is also eligible to receive health insurance premium payments for himself and his immediate family, a car allowance of \$800 per month, paid vacation of four weeks per year plus an additional two weeks per year for each full year of service during the term of the agreement up to a maximum of ten weeks per year, life insurance equal to three times his base salary and disability insurance. The Code Employment Agreement has a term of five years, unless earlier terminated in accordance with its terms.

The Code Employment Agreement also provides that Mr. Code’s employment may be terminated by the Company due to disability, for cause or without cause. “Disability” as used in the Employment Agreement means physical or mental incapacity or illness rendering Mr. Code unable to perform his duties on a long-term basis (i) as evidenced by his failure or inability to perform his duties for a total of 120 days in any 360 day period, or (ii) as determined by an independent and licensed physician whom Company selects, or (iii) as determined without recourse by the Company’s disability insurance carrier. If Mr. Code’s employment is terminated for cause he will be eligible to receive his accrued base compensation and vacation compensation through the date of termination. If Mr. Code’s employment is terminated without cause, then he will be eligible to receive the greater of (i) one year’s compensation plus an additional one half year for each year of service since the effective date of the employment agreement or (ii) one year’s compensation plus an additional one half year for each year remaining in the term of the agreement.

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

In connection with the closing of the acquisition of the BioLargo technology and the execution of the Code Employment Agreement, Mr. Code was also elected to the Board of both BioLargo and our wholly-owned subsidiary, BioLargo Life Technologies, Inc. (“BLTI”).

Charles K. Dargan II

On February 1, 2008, we engaged Charles K. Dargan, II to serve as our Chief Financial Officer for a term of one year, and since that date, have extended the engagement for one year periods. The agreement is subject to earlier termination on 30 days’ notice. During the term of the agreement, Mr. Dargan will receive a fee of \$16,000 per quarter.

In addition to the cash compensation specified above, the agreement calls for Mr. Dargan to be issued an option to purchase 50,000 shares of Common stock upon execution, and in addition, options over the term, to purchase 10,000 shares of our Common stock, each such option to be granted on the last day of each month commencing February and ending the following January, provided that his engagement has not been terminated prior to each such grant date, at an exercise price equal to the closing price of a share of the Company’s Common stock on each grant date, each such

option to be fully vested upon grant and exercisable for ten years. The 2010 extension of Mr. Dargan's engagement agreement did not include the option to purchase 50,000 shares upon execution of the Agreement.

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Mr. Dargan will be reimbursed for business expenses he incurs in connection with the performance of his services as our Chief Financial Officer. The agreement with Mr. Dargan also contains provisions regarding indemnification and arbitration of disputes.

On March 22, 2011, Mr. Dargan's agreement was further extended for a one-year period effective February 1, 2011 (the "Extended Term"). During the Extended Term, Mr. Dargan will continue to receive a fee of \$16,000 per quarter. In addition to the cash compensation, the February 1, 2011 agreement provides that Mr. Dargan will be issued an option to purchase 120,000 shares of the Company's Common stock at \$0.41 per share. The option shall vest over a period of 12 months, with 10,000 shares vesting upon execution of this Engagement Agreement and has a ten year term, expiring March 22, 2021.

#### Joseph Provenzano

On January 10, 2008, we entered into an employment agreement with Joseph L. Provenzano (the "Provenzano Employment Agreement"), pursuant to which Mr. Provenzano agreed to serve as Vice President of Operations effective January 1, 2008, in addition to continuing to serve as Corporate Secretary. The Provenzano Employment Agreement replaces a previous employment agreement dated March 1, 2003.

The Provenzano Employment Agreement provides that Mr. Provenzano will receive base compensation of \$79,200 annually (with automatic 10% annual increases). Mr. Provenzano is also entitled to reimbursement for authorized expenses he incurs in the course of his employment. In addition, Mr. Provenzano is eligible to receive discretionary bonuses, participate in benefits made generally available to our employees, and receive grants under our 2007 Equity Incentive Plan.

The initial term of the Provenzano Employment Agreement is one year and is automatically renewable for additional one-year periods unless we give at least 90 days notice of non-renewal. The Provenzano Employment Agreement also contains additional provisions typical of an agreement of this nature.

In connection with the execution of the Provenzano Employment Agreement, Mr. Provenzano also executed a non-disclosure agreement requiring him to keep certain information confidential, assigning to us creations and inventions during the term of his employment, and prohibiting him from soliciting business during the term of his employment and for a period of time thereafter.

#### Director Compensation

Each director who is not an officer or employee of the Company receives an annual retainer of \$40,000, paid in cash or shares of our Common stock, in our sole discretion. In addition, the chairman of each board committee receives an additional \$10,000, paid in cash or shares of Common stock, in our sole discretion. The following table sets forth information for the fiscal year ended December 31, 2010 regarding compensation of our non-employee directors. Our employee directors do not receive any additional compensation for serving as a director.

#### Director Compensation for Fiscal Year 2010

Name	Fees Earned or Fees Paid in Cash	Option Awards (1)	Non-Equity Incentive Plan		All Other Compensation	Total
			Compensation	Compensation		
Dennis E. Marshall	\$ 60,000 (2)	\$ 4,000 (4)	\$ —	\$ —	\$ —	\$ 64,000
Gary A. Cox	\$ 40,000 (3)	\$ 4,000 (4)	\$ —	\$ —	\$ —	\$ 44,000





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- (1) The Company recognizes 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 method. The amounts in the “Stock and Option Awards” column reflect the aggregate grant date fair value of awards of stock or options, computed in accordance with SEC rules. These amounts do not represent the actual amounts paid to or realized by any of the recipients during fiscal 2010. The assumptions used to calculate these amounts are discussed in Note 10 to the Company’s financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2010.
  - (2) In 2010 the retainer agreement for Mr. Marshall provided for a base amount of \$60,000, which included compensation for serving as Chairman of the Audit and Compensation committees of the Board. During 2010, we made aggregate payments to Mr. Marshall of \$80,000, of which \$50,000 related to 2009, consisting of (i) an issuance of 71,429 shares of our Common stock, issued at a conversion price of \$0.70 per share, the stock price at the date of grant, and (ii) an issuance of an option to purchase 150,000 shares of Common stock at \$0.30 per share. As of December 31, 2010, \$30,000 in director fees was accrued and unpaid. Mr. Marshall held options to purchase an aggregate 340,000 shares of our Common stock with a weighted average exercise price of \$0.43 per share and a weighted average remaining life of 6 years.
  - (3) In 2010 the retainer for Mr. Cox provided for a base amount of \$40,000. During 2010, we made aggregate payments to Mr. Cox of \$54,225, of which \$30,000 related to 2009, consisting of (i) payments totaling \$4,225, (ii) an issuance of 42,858 shares of our Common stock, issued at a conversion price of \$0.70 per share, the stock price at the date of grant, and (iii) an issuance of an option to purchase 100,000 shares of Common stock at \$0.30 per share. As of December 31, 2010, \$15,775 in director fees was accrued and unpaid. Mr. Cox held options to purchase an aggregate 254,000 shares of our Common stock with a weighted average exercise price of \$0.44 per share and a weighted average remaining life of 6 years.
  - (4) On July 1, 2010 each of Mr. Marshall and Mr. Cox were granted an option to purchase 10,000 shares of Common stock under the terms of the 2007 Plan.

#### Equity Compensation Plans

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

Under this plan, 6,000,000 shares of our Common stock are reserved for issuance under awards. Matter III relates to an increase in the number of shares of Common stock reserved for issuance under awards to an aggregate total of 12,000,000 shares. See Matter III for a description of the plan terms.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information regarding unexercised stock options and equity incentive plan awards for each of the Named Executive Officers outstanding as of December 31, 2010. All stock or options that were granted to the Named Executive Officers during the fiscal year ended December 31, 2010 have fully vested.

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Name	Number of Securities Underlying Unexercised Options (#) Exercisable		Number of Securities Underlying Unexercised Options (#) Unexercisable		Equity Incentive Plan Awards:	Option Exercise Price	Share Price on Grant Date	Option Expiration Date
					Number of Securities Underlying Unexercised Unearned Options			
Dennis Calvert	7,733,259	(1)			--	\$ 0.18(2)	\$ 0.37	April 30, 2017
	200,000	(3)			--	\$ 0.94	\$ 0.94	December 28, 2017
	60,000	(4)			--	\$ 0.55	\$ 0.37	April 27, 2012
	691,974	(5)			--	\$ 0.55	\$ 0.37	April 27, 2012
	200,000	(7)			--	\$ 0.575	\$ 0.50	February 1, 2020
	50,000	(6)			--	\$ 1.89	\$ 1.89	February 1, 2018
	10,000	(6)			--	\$ 1.65	\$ 1.65	April 30, 2018
Charles K. Dargan II	10,000	(6)			--	\$ 1.55	\$ 1.55	May 31, 2018
	10,000	(6)			--	\$ 1.10	\$ 1.10	June 30, 2018
	10,000	(6)			--	\$ 0.99	\$ 0.99	July 31, 2018
	10,000	(6)			--	\$ 0.90	\$ 0.90	August 31, 2018
	10,000	(6)			--	\$ 0.89	\$ 0.89	September 30, 2018
	10,000	(6)			--	\$ 0.35	\$ 0.35	October 31, 2018
	10,000	(6)			--	\$ 0.70	\$ 0.70	November 30, 2018
	10,000	(6)			--	\$ 0.41	\$ 0.41	December 31, 2018
	10,000	(6)			--	\$ 0.38	\$ 0.38	January 31, 2019
	50,000	(6)			--	\$ 0.28	\$ 0.28	February 23, 2019
	10,000	(6)			--	\$ 0.30	\$ 0.30	April 30, 2019
	36,000	(4)			--	\$ 0.50	\$ 0.30	April 29, 2012
	10,000	(6)			--	\$ 0.45	\$ 0.45	May 31, 2019
	10,000	(6)			--	\$ 0.45	\$ 0.45	June 30, 2019
	10,000	(6)			--	\$ 0.50	\$ 0.50	July 31, 2019
	10,000	(6)			--	\$ 0.43	\$ 0.43	August 31, 2019
	10,000	(6)			--	\$ 0.40	\$ 0.40	September 30, 2019
10,000	(6)			--	\$ 0.45	\$ 0.45	October 31, 2019	
10,000	(6)			--	\$ 0.57	\$ 0.57		

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						November 30, 2019
	10,000	(6)	--	\$ 0.70	\$ 0.70	December 31, 2019
	10,000	(6)	--	\$ 0.50	\$ 0.50	January 31, 2020
	10,000	(6)	--	\$ 0.45	\$ 0.45	February 28, 2020
	60,000	(7)	--	\$ 0.575	\$ 0.50	February 1, 2020
	10,000	(6)	--	\$ 0.50	\$ 0.50	March 31, 2020
	10,000	(6)	--	\$ 0.39	\$ 0.39	April 30, 2020
	10,000	(6)	--	\$ 0.31	\$ 0.31	May 31, 2020
	10,000	(6)	--	\$ 0.25	\$ 0.25	June 30, 2020
	10,000	(6)	--	\$ 0.24	\$ 0.24	July 31, 2020
	10,000	(6)	--	\$ 0.23	\$ 0.23	August 30, 2020
	200,000	(8)	--	\$ 0.30	\$ 0.30	August 4, 2015
	10,000	(6)	--	\$ 0.35	\$ 0.35	September 30, 2020
	10,000	(6)	--	\$ 0.42	\$ 0.42	October 31, 2020
	10,000	(6)	--	\$ 0.40	\$ 0.40	November 30, 2020
	10,000	(6)	--	\$ 0.50	\$ 0.50	December 31, 2020
Kenneth R. Code	200,000	(3)	--	\$ 1.03	\$ 0.94	December 28, 2017
	60,000	(4)	--	\$ 0.55	\$ 0.37	April 27, 2012
	200,000	(7)	--	\$ 0.575	\$ 0.50	February 1, 2015
Joseph Provenzano	100,000	(3)	--	\$ 0.94	\$ 0.94	December 28, 2017
	30,000	(4)	--	\$ 0.50	\$ 0.37	April 27, 2012
	200,000	(7)	--	\$ 0.575	\$ 0.50	February 1, 2020
	296,203	(8)	--	\$ 0.30	\$ 0.30	August 4, 2020

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- (1) Mr. Calvert was granted an option to purchase 7,733,259 shares of our Common stock pursuant to his employment agreement entered into on April 30, 2007. The options granted to Mr. Calvert vested over three years in equal amounts on the anniversary of the option grant date.
  - (2) The option exercise price of \$0.18 was below the \$0.37 closing price of our Common stock on the date of the employment agreement. In arriving at the option price, the Compensation Committee of our Board (the "Compensation Committee") determined the pricing was appropriate based on a number of factors, including (i) that the initial tranche of options does not vest until one year of the date of grant, (ii) with the quantity of the shares that would be issued, a block of shares that size could not be liquidated without affecting the market price of the shares, and (iii) the shares would be "restricted shares" and thereafter would be subject to the volume and manner of sale limitations applicable to affiliates under Rule 144 under the Securities Act of 1933.
  - (3) On December 28, 2007, the Compensation Committee granted options to Messrs. Calvert and Code under the 2007 Plan, which options vested over three years in equal amounts on the anniversary of the option grant date.
  - (4) On April 27, 2009, in an effort to preserve cash and reduce outstanding payables to third parties, officers and board members, the Board offered an option to purchase Common stock in lieu of cash payment to reduce amounts owed. The options may be exercised at \$0.50 cents a share, an amount which was 20 cents a share above the 30 cents per share closing price of the Company's Common stock on April 27, 2009, would be issued pursuant to the 2007 Plan, and would expire April 27, 2012. The number of shares of Common stock purchasable pursuant to the option would be equal to three times the dollar amount reduced. Mr. Calvert and Mr. Code reduced the outstanding amount owed to each by \$20,000, and in exchange each received options to purchase 60,000 shares of Common stock. The options issued to Messrs. Calvert and Code are exercisable at \$0.55 per share, which is ten percent above the exercise price, per the terms of the 2007 Plan. Mr. Dargan, our Chief Financial Officer, reduced the outstanding amount owed to him by \$12,000, and in exchange received an option to purchase 36,000 shares of Common stock at \$0.50 per share.
  - (5) On April 27, 2009, New Millennium agreed to accept as payment of \$230,658 of the outstanding \$380,658 in accrued but unpaid interest an option to purchase 691,974 shares of our Common stock, exercisable at \$0.55 cents per share. This option will expire April 24, 2012. New Millennium further agreed to extend the due date for the remaining \$150,000 unpaid interest to October 31, 2010. The \$150,000 due October 31, 2010, was paid by the issuance of stock prior to the due date. See "Certain Relationships and Related Transactions—Transactions with Dennis Calvert and New Millennium Capital Partners, LLC."
  - (6) In connection with the engagement agreement with our Chief Financial Officer, Charles K. Dargan II, we issued options to purchase Common stock which are fully vested and expire ten years from the date of issuance.
  - (7)

On February 1, 2010, the Compensation Committee granted options to Messrs. Calvert, Code, Provenzano and Dargan under the 2007 Plan, which options are exercisable at \$0.575 per share, vest immediately and expire ten years from the option grant date.

- (8) On August 4, 2010, in an effort to preserve our cash and reduce outstanding payables, the Board authorized converting outstanding payable amounts owed to Messrs. Provenzano and Dargan into an option to purchase Common stock in lieu of cash payment. The option may be exercised at \$0.30 cents a share, was issued pursuant to our 2007 Equity Incentive Plan, and will expire five years from the date of issuance.

We issued an option to Mr. Provenzano to purchase 296,203 shares of our Common stock at \$0.30 per share in lieu of \$99,240 in unpaid salary obligations that were incurred in fiscal year 2009, and an option to Mr. Dargan to purchase 200,000 shares of our Common stock at \$0.30 per share in lieu of \$40,000 in unpaid obligations that were incurred in fiscal year 2009.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of shares of our Common stock as of April 29, 2011, including rights to acquire beneficial ownership of shares of our Common stock within 60 days of April 29, 2011, by (a) all stockholders known to the Company to be beneficial owners of more than 5% of the outstanding Common stock; (b) each director, (c) each Named Executive Officer, and (d) all directors and executive officers of the Company as a group:

Name and Address of Beneficial Owner (1)	Amount of Beneficial Ownership	Percent of Class (2)
<b>Directors and Officers (3)</b>		
Kenneth R. Code (4)	22,944,649	34.4 %
Dennis P. Calvert (5)	12,009,468	18.0 %
Joseph L. Provenzano (6)	1,426,980	2.1 %
Gary A. Cox (7)	749,909	1.1 %
Dennis E. Marshall (8)	756,663	1.1 %
Charles K. Dargan II (9)	756,000	1.1 %
All directors and officers as a group (6 persons)	38,643,669	57.8 %

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- (1) Except as noted in any footnotes below, each person has sole voting power and sole dispositive power as to all of the shares shown as beneficially owned by them. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities.
- (2) The Company has only one class of stock outstanding. Percentage ownership is based on 54,921,633 shares of Common stock outstanding on April 29, 2011; shares of Common stock subject to options, warrants and convertible notes currently exercisable or convertible, or exercisable or convertible within 60 days, are deemed outstanding for determining the number of shares beneficially owned by the directors and officers, and the directors and officers as a group, and for computing the percentage ownership of the person holding such options, but are not deemed outstanding for computing the percentage ownership of any other person.
- (3) The address for all directors and the Named Executive Officers is: c/o BioLargo, Inc., 16333 Phoebe Avenue, La Mirada, California, 90638.
- (4) Includes 22,139,012 shares issued on April 30, 2007 to IOWC Technologies, Inc., which Mr. Code controls, in connection with the acquisition by the Company of certain intellectual property and other assets on that date. Includes 460,000 shares issuable to Mr. Code upon exercise of options.
- (5) Includes 1,636,364 shares issued on April 13, 2007 to New Millennium Capital Partners, LLC (“New Millennium”), which is wholly owned or controlled by Mr. Calvert, on conversion of the principal amount of a promissory note held by New Millennium. Includes 454,546 shares issued to New Millennium upon conversion of the remaining interest due pursuant to the New Millennium Note. See “Certain Relationships and Related Transactions—Transactions with Dennis Calvert and New Millennium Capital Partners, LLC.” Includes 7,733,259 shares issuable to Mr. Calvert upon exercise of the options issued in connection with his employment agreement, which fully vested on April 30, 2010. Includes 1,151,974 shares issuable to Mr. Calvert upon exercise of other options granted from time to time by the Company.

- (6) Includes 826,203 shares issuable to Mr. Provenzano upon exercise of options.
- (7) Includes 301,714 shares issuable to Mr. Cox upon exercise of options.
- (8) Includes 496,631 shares issuable to Mr. Marshall upon exercise of options..
- (9) Consists solely of 756,000 shares issuable to Mr. Dargan upon exercise of options.

#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company has adopted a policy that all transactions between the Company and its executive officers, directors and other affiliates must be approved by a majority of the members of the Board and by a majority of the disinterested members of the Board, and must be on terms no less favorable to the Company than could be obtained from unaffiliated third parties.



#### Transactions with Dennis Calvert and New Millennium Capital Partners, LLC

On April 13, 2007, New Millennium Capital Partners LLC (“New Millennium”), a limited liability company controlled and owned in part by the Company’s CEO and president, Dennis P. Calvert, converted a promissory note (the “Note”) in principal amount of \$900,000 into 1,636,364 shares of our Common stock, at a price of \$0.55 per share, which was the last bid price on the date of conversion. Accrued but unpaid interest in the amount of \$380,658 as of the conversion date of April 13, 2007 remained outstanding on the Note, which amount was due to be paid on January 15, 2008. We did not make such payment on such date. On November 12, 2008, we and New Millennium agreed to extend the date on which interest would be paid to April 30, 2009. On April 27, 2009, New Millennium agreed to accept as payment of \$230,658 of the outstanding \$380,658 in accrued but unpaid interest an option to purchase 691,974 shares of our Common stock, exercisable at \$0.55 cents per share. This option will expire April 24, 2012. New Millennium further agreed to extend the due date for the remaining \$150,000 unpaid interest to April 30, 2010, which date was further extended to October 31, 2010. On August 4, 2010, we issued to New Millennium 454,546 shares of our Common stock, at a conversion price of \$0.33, as payment of the \$150,000 accrued and unpaid interest.

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

#### Retirement of a Portion of Board of Director and Officer Payables

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

On August 4, 2010, we issued to Mr. Calvert an aggregate 494,750 shares of our Common stock, at a per share value of \$0.33, which was at a 10% premium, in lieu of \$163,267 of accrued and unpaid salary obligations. Of this amount \$96,286 related to services performed in 2009 and the remaining \$66,981 related to services performed through June 30, 2010. We also issued to Mr. Code 546,269 shares of our Common stock, at a per share value of \$0.33, which was a 10% premium, in lieu of \$180,269 of accrued and unpaid salary obligations. Of this amount \$131,793 related to services performed in 2009 and the remaining \$48,476 related to services performed through June 30, 2010.

On August 4, 2010, we issued an option to Mr. Provenzano to purchase 296,203 shares of our Common stock at \$0.30 per share in lieu of \$99,240 in unpaid salary obligations that were incurred in fiscal year 2009, an option to purchase 150,000 shares of our Common stock to Mr. Marshall at \$0.33 per share in lieu of \$30,000 in unpaid salary obligations that were incurred in fiscal year 2010, an option to purchase 100,000 shares of our Common stock to Mr. Cox at \$0.33 per share in lieu of \$20,000 in unpaid salary obligations that were incurred in fiscal year 2010, and an option to Mr. Dargan to purchase 200,000 shares of our Common stock at \$0.30 per share consultants in lieu of \$40,000 of accrued and unpaid obligations incurred in fiscal year 2009.

In 2009, Messrs. Calvert and Code reduced the outstanding amount owed to each by \$20,000, and in exchange each received options to purchase 60,000 shares of Common stock. The options issued to Messrs. Calvert and Code were exercisable at \$0.55 per share, which is ten percent above the otherwise applicable exercise price under the terms of the 2007 Plan. Mr. Provenzano reduced the outstanding amount owed to him by \$10,000, and in exchange received an option to purchase 30,000 shares of Common stock at \$0.50 per share. Mr. Marshall reduced the outstanding amount owed to him by \$50,000, and in exchange received an option to purchase 150,000 shares of Common stock at \$0.50 per share. Mr. Cox reduced the outstanding amount owed to him by \$38,000, and in exchange received an option to purchase 114,000 shares of Common stock at \$0.50 per share. In addition to these Board members, our Mr. Dargan reduced the outstanding amount owed to him by \$12,000, and in exchange received an option to purchase 36,000 shares of Common stock at \$0.50 per share.

REPORT OF COMPENSATION COMMITTEE

The following Report of the Compensation Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any of our other filings under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act, except to the extent that we specifically incorporate this report. The Compensation Committee has furnished this report on executive compensation for the 2010 fiscal year.

## Compensation Program and Philosophy

The Compensation Committee administers the Company's executive compensation program. The Compensation Committee has the authority to review and determine the salaries and bonuses of the executive officers of the Company, including the Chief Executive Officer and the other Named Executive Officers, and to establish the general compensation policies for such individuals. The Compensation Committee also has the sole and exclusive authority to make discretionary option grants to all of the Company's employees under the Company's equity incentive plans.

The Compensation Committee operates under a written charter. The duties and responsibilities of a member of the Compensation Committee are in addition to his or her duties as a member of the Board. The charter reflects these various responsibilities, and the Committee is charged with periodically reviewing the charter. The Committee's membership is determined by the Board and is composed entirely of independent directors. In addition, the Committee has the authority to engage the services of outside advisors, experts and others, including independent compensation consultants who do not advise the Company, to assist the Committee. Mr. Marshall has served as Chairman of the Compensation Committee since April 28, 2006. Mr. Cox also serves on the Compensation Committee. The Compensation Committee met twice during 2010.

The Compensation Committee believes that the compensation programs for the Company's executive officers should reflect the Company's performance, support the short- and long-term strategic goals and values of the Company, reward individual contribution to the Company's success and align the interests of the Company's executive officers with the interests of the Company's stockholders. The Company is engaged in a very competitive industry, and the Company's success depends upon its ability to attract and retain qualified executives through the competitive compensation packages it offers to such individuals. To that end, it is the view of the Board that the total compensation program for executive officers should consist of all or most of the following components:

- base salary
- bonus
- equity-based compensation

The Committee does not rely solely on predetermined formulas or a limited set of criteria when it evaluates the performance of the Company's chief executive officer and the Company's other executive officers. Typically, our Chief Executive Officer makes compensation recommendations to the Committee with respect to the compensation of our officers, and the Committee may accept or adjust such recommendations in its discretion. In 2010, the Committee considered management's continuing achievement of its short- and long-term goals versus its strategic imperatives. The principal factors that were taken into account in establishing each executive officer's compensation package for the 2010 fiscal year are described below. However, the Compensation Committee may in its discretion apply entirely different factors, such as different measures of financial performance, for future fiscal years. Moreover, all of the Company's Named Executive Officers have entered into employment agreements or arrangements with the Company, and many components of each such person's compensation are set by such agreement or arrangement.

## Chief Executive Officer Compensation

On April 30, 2007, the Company entered into an employment agreement with Mr. Calvert, pursuant to which, throughout 2010, Mr. Calvert served as the President and Chief Executive Officer. No modifications to Mr. Calvert's employment agreement were made in 2010. Other provisions of Mr. Calvert's Employment Agreement are discussed elsewhere in this Information Statement. See "EXECUTIVE COMPENSATION – Employment Agreements – Dennis P. Calvert" above.

Chief Technology Officer Compensation

On April 30, 2007, the Company entered an employment agreement with Mr. Code, pursuant to which, throughout 2010, Mr. Code served as the Company's Chief Technology Officer. Other provisions of Mr. Code's employment agreement are discussed elsewhere in this Information Statement. See "EXECUTIVE COMPENSATION – Employment Agreements – Kenneth R. Code" above.

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### Other Executive Compensation

On February 1, 2008, the Company entered into an agreement with Mr. Dargan, pursuant to which, throughout 2010, Mr. Dargan served as the Company's Chief Financial Officer. Other provisions of Mr. Dargan's agreement are discussed elsewhere in this Information Statement. See "EXECUTIVE COMPENSATION – Employment Agreements – Charles K. Dargan, II" above.

### Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code disallows a tax deduction to publicly-held companies for compensation paid to certain of their executive officers, to the extent that compensation exceeds \$1 million per covered officer in any fiscal year. The limitation applies only to compensation which is not considered to be performance based. Non-performance based compensation paid to the Company's executive officers for the 2010 fiscal year did not exceed the \$1 million limit per officer, and the Compensation Committee does not anticipate that the non-performance based compensation to be paid to the Company's executive officers for the 2011 fiscal year will exceed that limit. Because it is unlikely that the cash non-performance based compensation payable to any of the Company's executive officers in the foreseeable future will approach the \$1 million limit, the Compensation Committee has decided at this time not to take any action to limit or restructure the elements of cash compensation payable to the Company's executive officers. The Compensation Committee will reconsider this decision should the individual cash non-performance based compensation of any executive officer ever approach the \$1 million level.

Submitted by the  
Compensation Committee:

/s/ Dennis E. Marshall,  
Chair  
/s/ Gary A. Cox

## MATTER II RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our Audit Committee has appointed Haskell & White LLP as our independent registered public accounting firm to audit our financial statements for the fiscal year ended December 31, 2010 and for the first three quarterly periods for the year ending December 31, 2011, and the Consenting Stockholders will ratify the appointment of Haskell & White LLP pursuant to the written consent. Haskell & White LLP, Irvine, California, was appointed our independent registered public accounting firm on March 21, 2011. Prior to March 21, 2011, Jeffrey S. Gilbert acted as the Company's independent accountant. The Audit Committee approved both appointments. Haskell & White LLP has represented to us that it is independent with respect to the Company within the meaning of the published rules and regulations of the SEC.

Stockholder ratification of the selection of Haskell & White LLP as the Company's independent registered public accounting firm is not required under the laws of the State of Delaware, by the Company's Bylaws or otherwise. However, the Board submitted the selection of Haskell & White LLP to the stockholders for ratification as a matter of good corporate practice. Even upon the effectiveness of the ratification, the Audit Committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders.

### Change in Accountants

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

During the fiscal years ended December 31, 2009 and 2010 and through the date of this Information Statement, there were no disagreements with Jeffrey S. Gilbert on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which disagreement, if not resolved to the satisfaction of Jeffrey S. Gilbert, would have caused him to make reference to the matter of such disagreement in connection with this Information Statement. The accountant's report for the fiscal year ended December 31, 2009 did not contain an adverse opinion or a disclaimer of opinion, nor was such report qualified or modified as to uncertainty, audit scope, or accounting principles. However, the accountant's report for the fiscal year ended December 31, 2009 contained an explanatory paragraph noting the Company's limited liquid resources, recurring losses, negative cash flow from operations, and the need to raise capital to fund corporate maintenance and to implement its business plan, which matters raise substantial doubt about its ability to continue as a going concern.

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

On March 22, 2011, the Company provided Jeffrey S. Gilbert with a copy of the disclosures it is making in response to item 304(a) of Regulation S-K. The Company requested that Jeffrey S. Gilbert furnish it with a letter addressed to the SEC stating whether he agrees with the above statements, and if not, stating the respects in which he does not agree. A copy of that letter is attached as Exhibit B to this Information Statement.

#### Principal Accountant Fees and Services

The following table summarizes the fees billed by Jeffrey S. Gilbert, our principal accountant engaged to audit our financial statements for the years ended December 31, 2009 and 2010, for professional services rendered to the Company and its subsidiaries during 2009 and 2010. On March 21, 2011, Mr. Gilbert resigned and the Company engaged Haskell & White, LLP, to audit our financial statements for the year ended December 31, 2010. The Company paid \$33,000 in 2011 to Haskell & White, LLP, to audit our financial statements for the year ended December 31, 2010. No non-audit fees were paid to Haskell & White, LLP during the fiscal year ended December 31, 2010.

Type of Fee	Amount Billed and Paid	
	Fiscal Year 2009	Fiscal Year 2010
Audit Fees(1)	\$ 54,300	\$ 55,200
Audit-Related(2)	—	—
Total	\$ 54,300	\$ 55,200

(1) This category consists of fees for the audit of our annual financial statements included in our annual report on Form 10-K and review of the financial statements included in the Company's quarterly reports on Form 10-Q. This category also includes advice on audit and accounting matters that arose during, or as a result of, the audit or the review of interim financial statements, statutory audits required by non-U.S. jurisdictions and the preparation of an annual "management letter" on internal control matters.

(2) Represents services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for those fiscal years, aggregate fees charged for assurance and related services that are reasonably related to the performance of the audit and are not reported as audit fees. These services include consultations regarding Sarbanes-Oxley Act requirements, various SEC filings and the implementation of new accounting requirements.

#### REPORT OF AUDIT COMMITTEE

The following report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any of our other filings under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate this report by reference therein, and shall not be deemed to be soliciting material or otherwise deemed filed under either such Act.

The Audit Committee is currently comprised of two independent directors, both of whom are independent under the rules of the SEC and Nasdaq. Mr. Marshall serves as Chairman of the Audit Committee. Mr. Cox also serves on the Audit Committee. The Board has determined that Mr. Marshall qualifies as an “audit committee financial expert” as defined in Item 401(h) of Regulation S-K of the Securities Exchange Act of 1934, as amended. The duties and responsibilities of a member of the Audit Committee are in addition to his or her duties as a member of the Board. The Audit Committee operates under a written charter, a copy of which is available on our corporate website, [www.biolargo.com](http://www.biolargo.com). The Audit Committee met five times during 2010.



The Audit Committee's primary duties and responsibilities are to:

- engage the Company's independent auditor,
- monitor the independent auditor's independence, qualifications and performance,
- pre-approve all audit and non-audit services,
- monitor the integrity of the Company's financial reporting process and internal control systems,
- provide an open avenue of communication among the independent auditor, financial and senior management of the Company and the Board, and
- monitor the Company's compliance with legal and regulatory requirements, contingent liabilities, risk assessment and risk management.

Management is responsible for the Company's internal controls and the financial reporting process. The Company's independent auditor is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board and issuing a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes.

In carrying out these responsibilities, the Audit Committee monitored the scope and staffing of the Company's internal management group that was previously established by the Company and held meetings with the Company's internal auditor regarding the progress and completion of the implementation of the Company's internal controls and the scope of their audit of such internal controls.

In overseeing the preparation of the Company's financial statements, the Audit Committee held meetings with the Company's internal auditor and independent auditors, both in the presence of management and privately, to review and discuss all financial statements prior to their issuance and to discuss the overall scope and plans for their respective audits, the evaluation of the Company's internal controls and significant accounting issues. Management advised the Audit Committee that all financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and the Audit Committee discussed the statements with both management and the Company's independent auditors. In accordance with Section 204 of the Sarbanes-Oxley Act of 2002 and the Statement on Auditing Standards ("SAS") No. 61 (Communication With Audit Committees) as amended by SAS No. 90 (Audit Committee Communications), the Audit Committee has discussed with the Company's independent auditors all matters required to be discussed under the Sarbanes-Oxley Act and the foregoing standards. In addition, the Audit Committee has received the written disclosures and the letter from the independent accountant required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence, and has discussed with the independent accountant the independent accountant's independence.

With respect to the Company's independent auditors, the Audit Committee, among other things, discussed with Jeffrey S. Gilbert and Haskell & White LLP matters relating to his and their independence, including the written disclosures made to the Audit Committee as required by the Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). The Audit Committee also reviewed and approved the audit and non-audit fees of Mr. Gilbert. In addition, in light of Mr. Gilbert's retirement, the Audit Committee interviewed independent accounting firms, and appointed Haskell & White LLP, as the Company's principal accounting firm on March 21,

2011. The Audit Committee also reviewed and approved the audit fees of Haskell & White LLP.

On the basis of these reviews and discussions, the Audit Committee (i) appointed Haskell & White LLP as the Company's independent registered public accounting firm for the 2010 fiscal year and (ii) recommended to the Board that the Board approve the inclusion of the Company's audited financial statements in the Form 10-K for the year ended December 31, 2010 for filing with the SEC.

Submitted by the Audit  
Committee:

/s/ Dennis E. Marshall,  
Chair

/s/ Gary A. Cox

MATTER III  
AMENDMENT OF THE 2007 EQUITY INCENTIVE PLAN

The Company's 2007 Equity Incentive Plan (the "Plan") was adopted by the Board and approved by our stockholders in 2007. The Consenting Stockholders approved an amendment to the Plan to increase the number of shares of our Common stock reserved for issuance under the Plan by 6,000,000 shares from 6,000,000 to 12,000,000.

Summary of Amendment

The Consenting Stockholders approved an amendment to the Plan to increase the number of shares of our Common stock reserved for issuance under the Plan by 6,000,000 shares. The Board approved the proposed amendment on April 29, 2011.

Description of the Plan

The following description of the Plan is a summary only. It is subject to, and qualified in its entirety by, the full text of the Plan and proposed amendment to the Plan attached as Exhibit A to this Information Statement.

Purpose

The Board believes that the Company's ability to award incentive compensation based on equity in the Company is critical to its ability to attract, motivate and retain key personnel. Approval of this proposal would provide an aggregate total of 12,000,000 shares to be used for grants under the Plan. The creativity and entrepreneurial drive of such employees and other personnel who provide services to the Company will be critical to our success. By giving our employees, consultants and directors an opportunity to share in the growth of our equity, we will align their interests with those of our stockholders. Our employees, consultants and directors will understand that their stake in the Company will have value only if, working together, we create value for our stockholders. Awards under the Plan will generally vest over a period of time giving the recipient an additional incentive to provide services over a number of years and build on past performance.

Number of Shares

Under the Plan, as amended, 12,000,000 shares of our Common stock are reserved for issuance under awards. Any shares that are represented by awards under the Plan that are forfeited, expire, or are canceled or settled in cash without delivery of shares, or that are forfeited back to us or reacquired by us after delivery for any reason, or that are tendered to us or withheld to pay the exercise price or related tax withholding obligations in connection with any award under the Plan, will again be available for awards under the Plan. Only shares actually issued under the Plan will reduce the share reserve. If we acquire another entity through a merger or similar transaction and issue replacement awards under the Plan to employees, officers and directors of the acquired entity, those awards, to the extent permitted under applicable laws and securities exchange rules, will not reduce the number of shares reserved for the Plan.

The Plan imposes the following additional maximum limitations with respect to performance based compensation under Internal Revenue Code 162(m), which limitations will be adjusted to take into account stock splits, reverse stock splits and other similar occurrences following the date the Plan is approved by the stockholders:

- The maximum number of shares that may be subject to stock options or stock appreciation rights granted to any one person in any calendar year is 200,000 shares, except that this limit is 400,000 shares if the grant is made in the year of the recipient's initial employment.
- The maximum number of shares that may be subject to restricted stock or restricted stock units granted to any one person in any calendar year is 200,000 shares.

The maximum number shares that may be subject to awards granted to any one Participant in any calendar year of (a) performance shares, and/or performance units (the value of which is based on the Fair Market Value of a Shares), is 200,000 Shares; and (b) of performance units (the value of which is not based on the Fair Market Value of a Share) that could result a payment of more than \$500,000. The maximum value of shares that may be issued in connection with incentive stock options granted to any one person in any calendar year intended to qualify under Internal Revenue Code Section 422 is \$100,000.

The Compensation Committee, in its discretion, may grant awards that exceed the above limits (other than the limits on incentive stock options) if the Committee determines that such awards will not be considered "qualified performance-based compensation" within the meaning of Internal Revenue Code Section 162(m), but only if and to the extent that such discretion does not disqualify performance-based awards from qualifying as such under Internal Revenue Code Section 162(m). The number of shares reserved for issuance under the Plan, and the limits on the number of awards that may be granted to any one participant or of a particular type, as described above, are subject to adjustment to reflect certain subsequent changes to our capital structure, such as stock splits, stock dividends and recapitalizations.

#### Administration

The Plan is administered by the Compensation Committee. The Compensation Committee has full power to administer the Plan and the decisions of the Compensation Committee are final and binding upon all the participants.

The Board may delegate the Compensation Committee's administrative authority to another committee, or the Compensation Committee may delegate some of its authority to the Chief Executive Officer of the Company. Any such delegation may be made only to the extent the law allows. In no event may such delegation be made with respect to awards granted to individuals who are subject to Section 16 of the Exchange Act unless the delegation is made to a committee composed entirely of non-employee directors.

#### Eligibility

The selection of the participants in the Plan will generally be determined by the Compensation Committee. Employees and those about to become employees, including those who are officers or directors of the Company or its subsidiaries and affiliates, are eligible to be selected to receive awards under the Plan. In addition, non-employee service providers, including non-employee directors, and employees of unaffiliated entities that provide bona fide services to the Company as an independent contractor are eligible to be selected to receive awards under the Plan. Non-employee directors of the Board are eligible for and shall receive automatic grants of options (as described in more detail below) without approval by the Compensation Committee.

As of April 29, 2011, Messrs. Cox and Marshall, both of whom are non-employee directors, are the only people scheduled to receive grants of options under the Plan. Each will receive a grant of options to acquire 10,000 Common shares annually, vesting in full on the first anniversary of the grant (unless a recipient resigns prior to the one year anniversary, in which case the grant vests pro rata on a monthly basis) or earlier in the event of death, disability,

retirement or a change of control of the Company; an exercise price equal to the last reported sale price on the date of grant; and expiring on the earlier of earlier of (a) the tenth anniversary of the date of grant; or (b) the date that is ninety days after the termination of such non-employee director's service for any reason.

#### Types of Awards

The Plan allows for the grant of stock options, stock appreciation rights, restricted stock awards and restricted stock units in any combination, separately or in tandem. Subject to the terms of the Plan, the Compensation Committee will determine the terms and conditions of awards (other than the automatic option grants to non-employee directors), including the times when awards vest or become payable and the effect of certain events such as termination of employment.

Stock Options. The Compensation Committee may grant either incentive stock options qualified with respect to Internal Revenue Code Section 422 or options not qualified under any section of the Internal Revenue Code (“non-qualified options”). All stock options granted under the Plan must have an exercise price that is at least equal to the fair market value of our underlying common stock on the grant date. As of April 27, 2011, the fair market value of a share of our Common stock, determined by the closing price per share on that date as quoted OTB, was \$0.45. No stock option granted under the Plan may have a term longer than ten years, except that under the Plan the term may be extended for six months beyond the date of death in the event that an option recipient dies prior to the option’s termination date. The exercise price of stock options may be paid in cash, or, if the Compensation Committee permits, by tendering shares of common stock, or by any other means the Compensation Committee approves. Our stock options may contain a replenishment provision under which we issue a new option to an option holder (called a “replenishment option”), in order to maintain his or her equity stake in the company, if the option holder surrenders previously-owned shares to us in payment of the exercise price of an outstanding stock option. The automatic replenishment option grant generally covers only the number of shares surrendered, and expires at the same time as the option that was exercised would have expired.

Under the Plan, each non-employee director will receive an automatic initial grant of an option for 10,000 shares on the date he or she first joins the Board (or a pro-rated number if he or she joins the Board at a time other than at the annual stockholders’ meeting), and an annual grant of an option for an additional 10,000 shares in each subsequent year on the date of the regular annual stockholders’ meeting. In addition, the Compensation Committee may grant options for an additional number of shares to non-employee directors. The automatic options granted to non-employee directors are exercisable in full on the first anniversary of the date of grant, or earlier in the event of death, disability, retirement or a change of control of the Company. If the director resigns for other than death, disability, or retirement prior to the first anniversary of the grant date, a pro rata portion of the option will become vested on the date of such resignation. Automatic non-employee director option grants expire on the tenth anniversary of the grant date or if earlier, on the 90th day after the director terminates service for any reason.

Stock Appreciation Rights. The Compensation Committee may grant stock appreciation rights (“SARs”) which provide the recipient the right to receive a payment (in cash, shares or a combination of both) equal to the difference between the fair market value of a specific number of shares on the grant date and the fair market value of such shares on the date of exercise. Stock appreciation rights must expire no later than ten years after their grant date, except that under the Plan the term may be extended for six months beyond the date of death in the event that a recipient dies prior to the termination date of the SARs.

Restricted Stock and Restricted Stock Unit Awards. The Compensation Committee may grant shares of restricted common stock with or without payment of consideration by the recipient, or may grant restricted stock units. The Compensation Committee will determine whether restricted stock units will be paid in cash, our common stock or a combination thereof. All or part of any restricted stock or restricted stock unit award may be subject to conditions and restrictions, which the Compensation Committee will specify. There will be a restriction period of at least three years’ duration on stock and unit awards, unless the vesting of such awards is contingent on the attainment of performance goals, in which case the restriction period must be at least one year. The Compensation Committee may specify that the restriction period will lapse in the event of the recipient’s termination of employment as a result of death, disability or retirement. In addition, the Compensation Committee may provide for a shorter restriction period if it determines in its sole discretion that an award of restricted stock or restricted stock units is made in lieu of cash compensation (including without limitation cash bonus compensation).

#### Change of Control

The Compensation Committee may determine, in its discretion, whether an award issued under the Plan will become vested or payable, either in whole or in part, upon a change of control of the Company (as defined in the Plan). In

addition, each holder of an option or stock appreciation right, and each holder of shares received under a restricted stock award, restricted stock unit award, performance award or dividend equivalent award, if any, that vested or became payable as a result of the change of control, may have the right for a period of thirty days following the change of control to surrender the award or shares for a cash payment equal to:

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- in the case of an option or stock appreciation right, the difference between the higher of the fair market value of a share of our common stock on the date of surrender or the date of the change of control, and the grant or exercise price of the award; and
- in the case of shares, the higher of the fair market value of a share of our common stock on the date of surrender or the date of the change of control.

The Compensation Committee may also cancel any options or stock appreciation rights that are not exercised or surrendered during the thirty day period described above.

#### Transferability of Awards

Awards granted under the Plan are not transferable, other than by will or pursuant to state intestate laws, unless the Committee otherwise approves a transfer.

#### Foreign Participation

The Compensation Committee may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy or custom regarding awards granted to participants employed in foreign countries. In addition, the Compensation Committee may approve such supplements to, or amendments, restatements or alternative versions of, the Plan as it determines is necessary or appropriate for such purposes. Any such amendment, restatement or alternative versions that the Compensation Committee approves for purposes of using the Plan in a foreign country will not affect the terms of the Plan for use in any other country.

#### Awards

Except for annual grants to non-employee directors discussed above, all awards which may be granted under the Plan are discretionary. The Compensation Committee has not considered specific awards to be made under the Plan; therefore, the number of shares that will be covered by any awards or the individuals to whom awards will be made, the exercise price, and the fair value thereof cannot be determined at this time.

#### Amendments

The Board or Compensation Committee may alter, amend, suspend or discontinue the Plan at any time, but no such action may be taken without stockholder approval if such approval is required by law or listing requirements, or if such action increases the number of shares that may be issued under the Plan or the annual award limits, or eliminates the prohibition on stock option re-pricing. The Compensation Committee may alter or amend awards under the Plan, but no such action may be taken without the consent of the participant if it would materially adversely affect an outstanding award, and no such action may be taken without prior stockholder approval if it would result in re-pricing a stock option to a lower exercise price other than to reflect a capital adjustment of our stock, such as a stock split. The Company has never re-priced options in the past.

#### Term of Plan

The Plan will remain in effect until December 20, 2016, unless it is terminated earlier by the Board or the Compensation Committee.

#### Plan Benefits



Because the value of benefits under the Plan will depend on the Compensation Committee's actions and because the value of option and other stock awards will depend on the fair market value of Common stock at various future dates, it is not possible to determine all benefits that will be received by employees, officers, and directors.

## Federal Income Tax Consequences

The following summary is intended only as a general guide to the United States federal income tax consequences under current law of incentive stock options and non-qualified stock options, which are authorized for grant under the Plan. It does not attempt to describe all possible federal or other tax consequences of participation in the Plan or tax consequences based on particular circumstances. The tax consequences may vary if options are granted outside the United States.

**Stock Options.** An option holder recognizes no taxable income for regular income tax purposes as a result of the grant or exercise of an incentive stock option (“ISO”) qualifying under Internal Revenue Code Section 422 or a non-qualified stock option (“NSO”). The optionee will have no taxable income upon exercising an ISO (except that the alternative minimum tax may apply), and we will receive no deduction when an ISO is exercised. Upon exercising an NSO, the optionee generally must recognize ordinary income equal to the “spread” between the exercise price and the fair market value of our common stock on the date of exercise; we generally will be entitled to a deduction for the same amount. In the case of an employee, the option spread at the time an NSO is exercised is subject to income tax withholding, but the optionee generally may elect to satisfy the withholding tax obligation by having shares of common stock withheld from those purchased under the NSO. The tax treatment of a disposition of option shares acquired under the Plan depends on how long the shares have been held and whether such shares were acquired by exercising an ISO or by exercising an NSO. We will not be entitled to a deduction in connection with a disposition of option shares, except in the case of a disposition of shares acquired under an ISO before the applicable ISO holding periods have been satisfied.

**Restricted Common Stock.** Unless a participant who receives an award of restricted Common stock makes an election under section 83(b) of the Code as described below, the participant generally is not required to recognize ordinary income on the award of restricted Common stock. Instead, on the date the shares vest (i.e., become transferable and no longer subject to forfeiture), the participant will be required to recognize ordinary income in an amount equal to the excess, if any, of the fair market value of the shares on such date over the amount, if any, paid for such shares. If a section 83(b) election has not been made, any dividends received with respect to restricted Common stock that are subject at that time to a risk of forfeiture or restrictions on transfer generally will be treated as compensation that is taxable as ordinary income to the recipient. If a participant makes a section 83(b) election within thirty days of the date of transfer of the restricted Common stock, the participant will recognize ordinary income on the date the shares are awarded. The amount of ordinary income required to be recognized is an amount equal to the excess, if any, of the fair market value of the shares on the date of award over the amount, if any, paid for such shares. In such case, the participant will not be required to recognize additional ordinary income when the shares vest. However, if the shares are later forfeited, a loss can only be recognized up to the amount the participant paid, if any, for the shares.

**Other Considerations.** The Internal Revenue Code allows publicly-held corporations to deduct compensation in excess of \$1.0 million paid to the corporation’s chief executive officer and its four other most highly compensated executive officers in office at the end of the tax year if the compensation is payable solely based on the attainment of one or more performance goals and certain statutory requirements are satisfied. We intend for compensation arising from grants of awards under the Plan which are based on performance goals, including stock options and stock appreciation rights granted at fair market value, to be deductible by us as performance-based compensation not subject to the \$1.0 million limitation on deductibility.

## STOCKHOLDER PROPOSALS

From time to time stockholders present proposals that may be proper subjects for inclusion in a proxy statement and for consideration at an annual meeting of stockholders. Under the rules of the SEC, to be included in the proxy statement for our 2012 annual meeting of stockholders (if any), proposals must be received by us no later than

March 1, 2012.

ANNUAL REPORT ON FORM 10-K

We filed with the SEC our Annual Report for the year ended December 31, 2010 on Form 10-K (the “10-K”) on April 15, 2011. A copy of the 10-K has been made available on the Internet or mailed to all stockholders along with this Information Statement. Stockholders may obtain additional copies of the 10-K and the exhibits thereto, without charge, by writing to our Corporate Secretary, at our principal executive offices at 16333 Phoebe Avenue, La Mirada, California 90638, or by making a request to us on our website [www.biolargo.com](http://www.biolargo.com).

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OTHER MATTERS

Management does not know of any matters to be considered by the Consenting Stockholders other than those set forth herein and in the notice accompanying this Information Statement.

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE  
REQUESTED NOT TO SEND US A PROXY.

By Order of the Board of Directors,  
Dennis P. Calvert  
Chairman

La Mirada, California  
May 2, 2011

EXHIBIT A

AMENDMENT NO. 1  
TO THE  
BIOLARGO, INC.  
2007 EQUITY INCENTIVE PLAN

This Amendment No. 1 (this “Amendment”) to the BioLargo, Inc. 2007 Equity Incentive Plan (the “Plan”), is adopted by BioLargo, Inc., a Delaware corporation (the “Company”), effective on the date that is twenty calendar days from and after the date on which the Information Statement relating to the written consent of stockholders of the Company in lieu of the 2011 annual meeting is first mailed or made available. Capitalized terms used in this Amendment and not otherwise defined shall have the same meanings assigned to them in the Plan.

WITNESSETH:

WHEREAS, pursuant to Section 3(a) of the Plan, the Compensation Committee (the “Committee”) of the Board of Directors of the Company (the “Board”), acting as Administrator, may, with the approval of the Board, amend the Plan, provided, however, that (a) to the extent necessary and desirable to comply with any applicable law, regulation, or stock exchange rule, the Company shall obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required and (b) stockholder approval is required for any amendment to the Plan that increases the number of shares available under the Plan, with certain exceptions; and

WHEREAS, the Committee and the Board believe it to be in the best interests of the Company and its stockholders to amend the Plan to increase the maximum aggregate number of shares of Common stock which may be issued or transferred pursuant to Awards.

NOW, THEREFORE, the Plan is hereby amended as follows:

1. Section 6(a) of the Plan shall be amended and restated in its entirety to read as follows:

“Plan Reserve. Subject to adjustment as provided in Section 16, an aggregate of 12,000,000 Shares are reserved for issuance under this Plan. The number of Shares reserved for issuance under this Plan shall be reduced only by the number of Shares delivered in payment or settlement of Awards. Notwithstanding the foregoing, the Company may issue only 12,000,000 Shares upon the exercise of Incentive Stock Options.”

2. Except as otherwise expressly set forth in this Amendment, the Plan and each award agreement entered into pursuant thereto, shall remain in full force and effect in accordance with its terms.

3. This Amendment shall be governed by, interpreted under, and construed and enforced in accordance with the internal laws, and not the laws relating to conflicts or choice of laws, of the State of Delaware applicable to agreements made and to be performed wholly within the State of Delaware.

\* \* \*

Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549

Commissioners:

I have read the statements made by BioLargo, Inc. set forth in Item 4.01 as part of the Company's Form 8-K report dated March 23, 2011. I agree with the statements concerning my firm in such Form 8-K.

/s/ Jeffrey S. Gilbert  
Jeffrey S. Gilbert, C.P.A.  
March 23, 2011