

LIQUIDMETAL TECHNOLOGIES INC  
Form S-1  
December 09, 2005

As filed with the Securities and Exchange Commission on December 9, 2005

Registration No. 333-

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM S-1

REGISTRATION STATEMENT  
Under  
THE SECURITIES ACT OF 1933

### LIQUIDMETAL TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

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

**3399**  
(Primary Standard Industrial Classification Code  
Number)

**33-0264467**  
(I.R.S. Employer  
Identification No.)

**Liquidmetal Technologies, Inc.**

**25800 Commercentre Drive, Suite 100**

**Lake Forest, California 92630**

**(949) 206-8000**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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**John Kang**

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**President and Chief Executive Officer**

**Liquidmetal Technologies, Inc.**

**25800 Commercentre Drive, Suite 100**

**Lake Forest, California 92630**

**Phone: (949) 206-8000**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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with a copy to:

**Curt P. Creely**

**Foley & Lardner LLP**

**100 North Tampa Street, Suite 2700**

**Tampa, Florida 33602**

**Phone: (813) 229-2300/Fax: (813) 221-4210**

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**Approximate date of commencement of proposed sale to the public:** From time to time after the effective date of this Registration Statement, as determined by the selling stockholders.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to Be Registered</b>	<b>Amount to Be Registered</b>	<b>Proposed Maximum Offering Price Per Share</b>	<b>Proposed Maximum Aggregate Offering Price</b>	<b>Amount of Registration Fee</b>
Common Stock issuable upon conversion of 6% Senior Secured Notes Due July 2007	3,425,402 shares	\$1.18(1)	\$4,041,975	\$433

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Common Stock issuable upon conversion of 7% Senior Secured Convertible Notes Due August 2007	5,926,723 shares	2.00(2)	11,853,446	1,269
Common Stock issuable upon exercise of warrants	4,533,258 shares	2.00(3)	9,066,516	971
Common Stock issuable upon exercise of warrants	675,781 shares	3.00(4)	2,027,343	217
Common Stock issuable upon exercise of non-qualified stock options	376,345 shares 14,937,509	1.18(1)	444,088	48
TOTAL	shares(5)		\$27,433,368	\$2,938

(1) The price is estimated, solely for the purpose of calculating the registration fee, in accordance with Rules 457(g) and 457(c) under the Securities Act, based on the average of the high and low prices of the Registrant's Common Stock as of December 6, 2005 on the OTC Bulletin Board.

(2) The price is estimated in accordance with Rule 457(g) under the Securities Act, solely for the purpose of calculating the registration fee and is \$2.00, the conversion price of the 7% Senior Secured Convertible Notes Due August 2007.

(3) The price is estimated in accordance with Rule 457(g) under the Securities Act, solely for the purpose of calculating the registration fee and is \$2.00, the exercise price of the warrants issued in June 2005 and August 2005.

(4) The price is estimated in accordance with Rule 457(g) under the Securities Act, solely for the purpose of calculating the registration fee and is \$3.00, the exercise price of the warrants issued in March 2004.

(5) Pursuant to Rule 416 under the Securities Act, this registration statement also covers such number of additional shares of common stock to prevent dilution resulting from stock splits, stock dividends, or similar events, or as a result of anti-dilution provisions contained in the warrants. In addition, pursuant to Rule 416, the shares being registered include an additional indeterminate number of shares of common stock issuable upon conversion of the convertible senior secured notes in the future as the result of anti-dilution adjustments.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

**PROSPECTUS**

**LIQUIDMETAL TECHNOLOGIES, INC.**

**14,937,509 Shares**

**Common Stock**

This prospectus covers a total aggregate of up to 14,937,509 shares of our common stock, par value \$.001 per share, that may be offered from time to time by the selling stockholders identified on pages 17-20 of this prospectus. The shares being offered by this prospectus consist of:

up to 3,425,402 (2,854,502 x 1.2 and then rounded up to the next whole share) shares issuable upon the conversion of principal and accrued but unpaid interest under our 6% Senior Secured Notes Due July 2007;

up to 5,926,723 (4,938,936 x 1.2 and then rounded up to the next whole share) shares issuable upon the conversion of principal and accrued but unpaid interest under our 7% Senior Secured Convertible Notes Due August 2007;

up to 5,209,039 (4,340,866 x 1.2 and then rounded up to the next whole share) shares issuable upon the exercise of common stock purchase warrants issued by us in connection with previous private placements; and

up to 376,345 shares issuable upon the exercise of a non-qualified stock option agreement granted to one individual.

This prospectus also covers any additional shares of common stock that may become issuable upon any anti-dilution adjustment pursuant to the terms of such notes and warrants.

We are registering these shares of our common stock for resale by the selling stockholders named in this prospectus, or their transferees, pledgees, donees or successors. We will not receive any proceeds from the sale of these shares by the selling stockholders. These shares are being registered to permit the selling stockholders to sell shares from time to time in the public market, in amounts, at prices and on terms determined at the time of offering. The selling stockholders may sell this common stock through ordinary brokerage transactions, directly to

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market makers of our shares or through any other means described in the section entitled "Plan of Distribution" beginning on page 78.

**Before purchasing any of the shares covered by this prospectus, carefully read and consider the risk factors in the section entitled "Risk Factors" beginning on page 5.**

Our common stock is quoted on the OTC Bulletin Board under the symbol "LQMT.OB". On December 6, 2005, the last reported sales price of our common stock was \$1.11 per share.

Our principal executive offices are located at 25800 Commercentre Drive, Suite 100, Lake Forest, California 92630, and our telephone number at that address is (949) 206-8000.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the sale of this common stock or determined that the information in this prospectus is accurate and complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is December 9, 2005.

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

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This prospectus is a part of the registration statement that we filed with the Securities and Exchange Commission. The selling stockholders named in this prospectus may from time to time sell the securities described in this prospectus.

**You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. The common stock is not being offered in any jurisdiction where the offer is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of the common stock.**

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We have registered the following trademark, which is used in this prospectus: Liquidmetal. In this prospectus, we use the terms company, we, us and our to refer to Liquidmetal Technologies, Inc. In this prospectus Liquidmetal or Liquidmetal Technologies refer to Liquidmetal Technologies, Inc.



**PROSPECTUS SUMMARY**

*This summary highlights information contained elsewhere in this prospectus. Because this is a summary, it is not complete and does not contain all of the information that may be important to you. For a more complete understanding of us and this offering of our common stock, we encourage you to read this prospectus in its entirety, especially the risks of investing in our common stock discussed under Risk Factors and our consolidated financial statements, including the notes thereto, appearing elsewhere in this prospectus.*

### **Liquidmetal Technologies, Inc.**

We are a materials technology company that develops and commercializes products made from amorphous alloys. Our Liquidmetal® family of alloys consists of a variety of proprietary coatings, powders, bulk alloys, and composites that utilize the advantages offered by amorphous alloy technology. We develop, manufacture, and sell products and components from bulk amorphous alloys to customers in various industries, and we also partner with third-party licensees such as Rawlings, Head, and Socket Communications and distributors such as Matech and LLPG to develop and commercialize bulk Liquidmetal alloy products. We believe that our proprietary bulk alloys are the only commercially viable bulk amorphous alloys currently available in the marketplace. In addition to our bulk alloys, we market and sell a line of proprietary amorphous alloy-based industrial coatings under the Liquidmetal® Armacor™ coatings brand.

Amorphous alloys are unique materials that are distinguished by their ability to retain a random atomic structure when they solidify, in contrast to the crystalline atomic structure that forms in other metals and alloys when they solidify. Liquidmetal alloys possess a combination of performance, processing, and potential cost advantages that we believe will make them preferable to other materials in a variety of applications. The amorphous atomic structure of our alloys enables them to overcome certain performance limitations caused by inherent weaknesses in crystalline atomic structures, thus facilitating performance and processing characteristics superior in many ways to those of their crystalline counterparts. For example, our zirconium-titanium Liquidmetal alloys are approximately 250% stronger than commonly used titanium alloys such as Ti-6Al-4V, but they also have some of the beneficial processing characteristics more commonly associated with plastics. We believe these advantages could result in Liquidmetal alloys supplanting high-performance alloys, such as titanium and stainless steel, and other incumbent materials in a wide variety of applications. Moreover, we believe these advantages could enable the introduction of entirely new products and applications that are not possible or commercially viable with other materials.

### **Our Strategy**

Our goal is to develop and commercialize a wide variety of products made from Liquidmetal alloys. The key elements of our strategy include:

Identifying and developing new applications for our Liquidmetal alloy technology;

Focusing our marketing and internal manufacturing activities on select products with expected higher gross margins;

Further developing our manufacturing processes, capabilities, and efficiencies for bulk Liquidmetal alloy;

Pursuing strategic partnerships in order to more rapidly develop and commercialize products; and

Advancing and further developing the Liquidmetal® brand to increase awareness of our company and technology.

**Initial Applications**

We have focused our commercialization efforts for Liquidmetal alloys on five identified product areas. We believe that these areas are consistent with our strategy in terms of market size, building brand recognition, and providing an opportunity to develop and refine our processing capabilities. Although we believe that strategic partnering transactions could create valuable opportunities beyond the parameters of these target markets, we anticipate continuing to pursue these markets both internally and in conjunction with partners.

*Components for electronic products.* We produce components for electronic devices using our bulk Liquidmetal alloys and believe that our alloys offer enhanced performance and design benefits for these components in certain applications. Specifically, we currently produce internal hinge housings for certain Samsung cellular phone models and casings for certain SanDisk flash memory drives.

*Sporting goods and leisure products.* We are developing a variety of applications for Liquidmetal alloys in the sporting goods and leisure products area. In 2003, Rawlings Sporting Goods Company launched a new line of baseball and softball bats that utilize a Liquidmetal alloy coating, and HEAD NV Sport launched a new line of HEAD® Liquidmetal® tennis racquets that incorporates Liquidmetal alloy in composite form in their racquet design.

*Medical devices.* We are engaged in product development efforts relating to various medical devices that could be made from Liquidmetal alloys. We believe that the unique properties of bulk Liquidmetal alloys provide a combination of performance and cost benefits that could make them a desirable replacement to incumbent materials, such as stainless steel and titanium, currently used in various medical device applications.

*Industrial coatings and powders.* We continue to market and sell amorphous alloy industrial coatings and powders under the Liquidmetal® Armacor™ coatings brand name. Liquidmetal alloy coatings are used primarily as a protective coating for industrial machinery and equipment.

*Defense applications.* We are working with the U.S. Department of Defense, as well as a variety of defense-related research and development agencies and large defense contractors, to develop various defense-related applications for Liquidmetal alloys. For example, we are currently developing prototype kinetic energy penetrator rods for use in armor-piercing ammunition systems.

## **Risk Factors**

We are subject to a number of risks that you should be aware of before you decide to buy our common stock. These risks are discussed more fully in the **RISK FACTORS** section of this prospectus.

**Corporate Information**

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We were originally incorporated in California in 1987, and we reincorporated in Delaware in May 2003. Our principal executive offices are located at 25800 Commercentre Dr., Suite 100, Lake Forest, California 92630. Our telephone number at that address is (949) 206-8000. Our Internet website address is [www.liquidmetal.com](http://www.liquidmetal.com) and all of our filings with the Securities and Exchange Commission are available free of charge on our website. Any information that is included on or linked to our Internet site is not a part of this prospectus.

**The Offering**

Common stock offered	Up to 14,937,509 shares are being offered by the selling stockholders. Of these shares:
	up to 3,425,402 (2,854,502 x 1.2 and then rounded up to the next whole share) shares are issuable to various selling stockholders upon the conversion of principal and accrued but unpaid interest under our 6% Senior Secured Notes Due July 2007 (the July 2007 Notes ), which notes were issued by us to such selling stockholders on July 29, 2004;
	up to 5,926,723 (4,938,936 x 1.2 and then rounded up to the next whole share) shares are issuable to various selling stockholders upon the conversion of principal and accrued but unpaid interest under our 7% Senior Secured Convertible Notes Due August 2007 (the August 2007 Notes ), which notes were issued by us to such selling stockholders on August 2, 2005;
	up to 675,781 (563,151 x 1.2 and then rounded up to the next whole share) shares are issuable to various selling stockholders upon the exercise of outstanding common stock purchase warrants issued by us on March 1, 2004 and having an original exercise price of \$3.00 per share;
	up to 1,072,500 (893,750 x 1.2 then rounded up to the next whole share) shares are issuable to various selling stockholders upon the exercise of outstanding common stock purchase warrants issued by us on June 13, 2005 and having an exercise price of \$2.00 per share;
	up to 3,460,758 (2,883,965 x 1.2 then rounded up to the next whole share) shares are issuable to various selling stockholders upon the exercise of outstanding common stock purchase warrants issued by us on August 2, 2005 and having an exercise price of \$2.00 per share; and
	up to 376,345 shares are issuable to one individual upon the exercise of an outstanding non-qualified stock option agreement issued by us on January 1, 2001 and having an exercise price of \$1.16 per share.
Shares outstanding after the offering	57,101,630 shares
Use of proceeds	We will not receive any proceeds from the sale of the shares offered by the selling stockholders. Any proceeds we receive from the selling stockholders upon their exercise of the warrants or option to purchase the shares included in the shares that are being offered by them hereunder will be used for general working capital.



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Risk factors	See RISK FACTORS and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in the shares.
OTC Bulletin Board symbol	LQMT.OB

The number of shares of common stock that will be outstanding immediately after this offering is based on the number of shares outstanding as of October 1, 2005 and assumes the full conversion of the convertible promissory notes and the full exercise of the warrants and option identified above. There is no guarantee that all or any of such notes, warrants, or option will be converted or exercised. The number of shares of common stock to be outstanding after this offering does not include 8,090,973 shares issuable pursuant to common stock options outstanding as of October 1, 2005 under our equity incentive plans, which options have a weighted-average exercise price of \$4.45 per share, and 6,847,585 shares of common stock reserved for future grants under our equity compensation plans.

In this prospectus, unless otherwise stated or the context otherwise requires, references to Liquidmetal, we, us, our, our company, the Company, and similar references refer to Liquidmetal Technologies, Inc. and its subsidiaries.

## Summary Consolidated Financial Data

The following summary consolidated financial data as of and for our years ended December 31, 2002, 2003 and 2004 have been derived from our audited consolidated financial statements. The following summary consolidated financial data as of and for the nine months ended September 30, 2004 and 2005 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. Such unaudited interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly our financial position, results of operations and cash flows for the nine-month periods ended September 30, 2005 and 2004. The following information should be read together with MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS and our Consolidated Financial Statements and Notes thereto included elsewhere in this prospectus. The historical results presented below are not necessarily indicative of future results.

	Nine Months Ended September 30,		Years Ended December 31,		
	2005	2004	2004	2003	2002
	(unaudited)				
	(in thousands, except per share data)				

**Consolidated Statements Of  
Operation Data:**

Revenue.	\$	10,912	\$	14,958	\$	17,429	\$	13,658	\$	9,138
Cost of sales		10,553		9,273		12,168		18,162		5,656
Gross profit		359		5,685		5,261		(4,504)		3,482
Operating expenses:										
Selling, general, and administrative expenses		6,521		9,178		11,591		17,729		13,099
Research and development expenses		806		1,060		1,467		8,780		11,825
Impairment of Goodwill								184		
Impairment of long lived assets		3,394						2,684		
Total operating expenses		10,721		10,238		13,058		29,377		24,924
Loss before interest, other income, income taxes, minority interest and discontinued operations		(10,362)		(4,553)		(7,797)		(33,881)		(21,442)
Loss from extinguishments of debt		(1,247)		(1,663)		(1,663)				
Change in value of warrants, net		1,145		846		747				
Other income				302		302				
Interest expense		(3,325)		(3,242)		(3,603)		(390)		(1,109)
Interest income		14		34		37		304		506
Gain on sale of marketable securities held for sale								1,178		832
Loss before minority interest and discontinued operations		(13,775)		(8,276)		(11,977)		(32,789)		(21,213)
Minority interest in loss of consolidated subsidiary								21		118
Loss from continuing operations		(13,775)		(8,276)		(11,977)		(32,768)		(21,095)
Discontinued Operations:										
Income (loss) from discontinued operations, net				(749)		(749)		(964)		83
Gain (loss) from disposal of discontinued operations, net								127		1,556

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Net loss	\$	(13,775)	\$	(9,025)	\$	(12,726)	\$	(33,605)	\$	(19,456)
Loss per share from continuing operations	\$	(0.33)	\$	(0.20)	\$	(0.29)	\$	(0.79)	\$	(0.54)
Gain (Loss) per share from discontinuing operations	\$		\$	(0.02)	\$	(0.02)	\$	(0.02)	\$	0.04
Net loss per share	\$	(0.33)	\$	(0.22)	\$	(0.31)	\$	(0.81)	\$	(0.50)
Weighted average shares - basic and diluted		41,717		41,610		41,610		41,505		38,714

As of September 30, 2005  
(unaudited)

**Consolidated Balance Sheet Data:**

Cash and cash equivalents	\$	933
Working capital		(9,768)
Total assets		23,001
Long-term obligations, net of current portion		8,157
Stockholders' deficit		(972)

## RISK FACTORS

*An investment in our common stock involves risk. You should carefully consider the risks we describe below before deciding to invest in our common stock. The market price of our common stock could decline due to any of these risks, in which case you could lose all or part of your investment. In assessing these risks, you should also refer to the other information included in this prospectus, including our consolidated financial statements, including the notes thereto, and appearing elsewhere in this prospectus. This discussion contains forward-looking statements. See *Forward-Looking Statements* for a discussion of uncertainties, risks and assumptions associated with these statements.*

### **We have incurred significant operating losses in the past and may not be able to achieve or sustain profitability in the future.**

We have experienced significant operating losses since our inception. Our net loss for the fiscal years ended December 31, 2004 and 2003 was \$12.7 million and \$33.6 million, respectively, and our net loss for the nine months ended September 30, 2005 and 2004 was \$13.8 million and \$9.0 million, respectively. We had an accumulated deficit of approximately \$139.1 million at September 30, 2005. Of this accumulated deficit, \$44.5 million was attributable to losses generated by our discontinued equipment manufacturing and retail golf businesses through September 30, 2005. We anticipate that we may continue to incur operating losses for the foreseeable future. Consequently, it is possible that we may never achieve positive earnings and, if we do achieve positive earnings, we may not be able to achieve them on a sustainable basis.

### **We may require additional funding, which may not be available on favorable terms or at all.**

Our future capital requirements will depend on the amount of cash generated by our operations. Our projections of cash flows from operations and, consequently, future cash needs are subject to substantial uncertainty. If our available funds and cash generated from operations are insufficient to satisfy our liquidity requirements, we may need additional funds in the future to support our working capital requirements and for other purposes, and we may seek to raise additional funds through public or private equity financing, bank debt financing, or from other sources. Adequate funds may not be available when needed or may not be available on favorable terms. If we raise additional funds by issuing equity securities, existing stockholders may be diluted. If funding is insufficient at any time in the future, we may not be able to develop or enhance our products or services, take advantage of business opportunities, or respond to competitive pressures, any of which could harm our business.

### **We have a limited history of developing, manufacturing, and selling products made from our bulk amorphous alloys.**

We have marketed and sold industrial coatings to distributors in the coatings industry since 1987. Prior to the third quarter of 2002, our experience selling products made from bulk amorphous alloys has been limited to our discontinued retail golf business, which had a different marketing strategy than the one we are currently employing. Therefore, we have a relatively limited history of producing bulk amorphous alloy components and products on a mass-production basis. Furthermore, our ability to produce our products in desired quantities and at commercially reasonable prices is uncertain and is dependent on a variety of factors that are outside of our control, including the nature and design of the component, the customer's specifications, and required delivery timelines.

### **We rely on assumptions about the markets for our products and components that, if incorrect, may adversely affect our profitability.**

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We have a relatively short history producing bulk amorphous alloy components on a mass-production basis. We have made assumptions regarding the market size for, and the manufacturing requirements of, our products and components based in part on information we received from third parties and also from our limited history. If these assumptions prove to be incorrect, we may not achieve anticipated revenue targets or profitability.

**If we cannot establish and maintain relationships with customers that incorporate our components and products into their finished goods, we will not be able to increase our revenue and commercialize our products.**

To increase our revenue, we must establish and maintain relationships with customers that will incorporate our components and products into their finished goods. We expect to rely on the marketing, distribution, and, in some cases, the manufacturing, research, and development abilities of our customers to assist us in developing, commercializing, and marketing our products in different markets. Our future growth and success will depend in large part on our ability to enter into these relationships and the subsequent success of these relationships. If our products are selected for use in a customer's products, we still may not realize significant revenue from that customer if that customer's products are not commercially successful.

**It may take significant time and cost for us to develop new customer relationships, which may delay our ability to generate additional revenue or achieve profitability.**

Our ability to generate revenue from new customers is generally affected by the amount of time it takes for us to, among other things:

identify a potential customer and introduce the customer to Liquidmetal alloys;

work with the customer to select and design the parts to be fabricated from Liquidmetal alloys;

make the molds and tooling to be used to produce the selected part;

make prototypes and samples for customer testing;

work with our customers to test and analyze prototypes and samples; and

with respect to some types of products, such as medical devices, to obtain regulatory approval.

We currently do not have a sufficient history of selling products made from our bulk amorphous alloys to predict accurately the length of our average sales cycle. We believe that our average sales cycle from the time we deliver an active proposal to a customer until the time our customer fully integrates our bulk amorphous alloys into its product could be a significant period of time. Our history to date has demonstrated that the sales cycle could extend significantly longer than we anticipate. The time it takes to transition a customer from limited production to full-scale production runs will depend upon the nature of the processes and products into which our alloys are integrated. Moreover, we have found that customers often proceed very cautiously and slowly before incorporating a fundamentally new and unique type of material into their

products.

**After we develop a customer relationship, it may take a significant amount of time for that customer to develop, manufacture, and sell finished goods that incorporate our components and products.**

Our experience has shown that our customers will perform numerous tests and extensively evaluate our components and products before incorporating them into their finished products. The time required for testing, evaluating, and designing our components and products into a customer's products, and in some cases, obtaining regulatory approval, can take a significant amount of time, with an additional period of time before a customer commences volume production of products incorporating our components and products, if ever. Moreover, because of this lengthy development cycle, we may experience a delay between the time we accrue expenses for research and development and sales and marketing efforts and the time when we generate revenue, if any. We may incur substantial costs in an attempt to transition a customer from initial testing to prototype and from prototype to final product. If we are unable to minimize these transition costs, or to recover the costs of these transitions from our customers, our operating results will be adversely affected.

**A limited number of our customers generate a significant portion of our revenue.**

For the near future, we expect that a significant portion of our revenue will be concentrated in a limited number of customers. For example, for the year ended December 31, 2004, revenue from two customers represented approximately 62% of total revenue from continuing operations, and for the year ended December 31, 2003, revenue from two customers represented approximately 26% of total revenue from continuing operations. Revenues from Charm Tech and Pntel, both of which are direct suppliers to Samsung, represented 62% of revenue from continuing operations for the year ended 2004. Also, revenues from defense related contracts with the United States of America represented 10%, and Growell Metal represented 12%, of revenue from continuing operations for the year ended 2004. During 2003, three customers accounted for 10% or more of our revenue from continuing operations. Revenue from Samsung represented 10%, revenue from LLPG, Inc. represented 12%, and defense-related contracts with three departments of the United States of America represented 16% of revenue from continuing operations for the year ended December 31, 2003. A reduction, delay, or cancellation of orders from one or more of these customers or the loss of one or more customer relationships could significantly reduce our revenue. Unless we establish long-term sales arrangements with these customers, they will have the ability to reduce or discontinue their purchases of our products on short notice.

**We expect to rely on our customers to market and sell finished goods that incorporate our products and components, a process over which we will have little control.**

Our future revenue growth and ultimate profitability will depend in part on the ability of our customers to successfully market and sell their finished goods that incorporate our products. We will have little control over our customers' marketing and sales efforts. These marketing and sales efforts may be unsuccessful for various reasons, any of which could hinder our ability to increase revenue or achieve profitability. For example, our customers may not have or devote sufficient resources to develop, market, and sell their finished goods that incorporate our products. Because we typically will not have exclusive sales arrangements with our customers, they will not be precluded from exploring and adopting competing technologies. Also, products incorporating competing technologies may be more successful for reasons unrelated to the performance of our customers' products or the marketing efforts of our customers.

**Our growth depends on our ability to identify, develop, and commercialize new applications for our technology.**

Our future growth and success will depend in part on our ability to identify, develop, and commercialize, either alone or in conjunction with our customers, new applications and uses for Liquidmetal alloys. If we are unable to identify and develop new applications, we may be unable to develop new products or generate additional revenue. Successful development of new applications for our products may require additional investment, including costs associated with research and development and the identification of new customers. In addition, difficulties in developing and achieving market acceptance of new products would harm our business.

**We may not be able to effectively compete with current suppliers of incumbent materials or producers of competing products.**

The future growth and success of our bulk amorphous alloy business will depend in part on our ability to establish and retain a technological advantage over other materials for our targeted applications. For many of our targeted applications, we will compete with manufacturers of similar products that use different materials. For example, we have targeted the cellular phone casing market as an application for bulk Liquidmetal alloys. In this market, we believe we will compete with other manufacturers of cellular phone casings who use plastics or metal to construct their casings. In other markets, we will compete directly with suppliers of the incumbent material. In addition, in each of our targeted markets, our success will depend in part on the ability of our customers to compete successfully in their respective markets. Thus, even if we are successful in replacing an incumbent material in a finished product, we will remain subject to the risk that our customer will not compete



successfully in its own market.

**Our bulk amorphous alloy technology is still at an early stage of commercialization relative to many other materials.**

Our bulk amorphous alloy technology is a relatively new technology as compared to many other material technologies, such as plastics and widely-used high-performance crystalline alloys. Historically, the successful commercialization of a new materials technology has required the persistent improvement and refining of the technology over a sometimes lengthy period of time. Accordingly, we believe that our Company's future success will be dependent on our ability to continue expanding and improving our technology platform by, among other things, constantly refining and improving our manufacturing processes, optimizing our existing amorphous alloy compositions for various applications, and developing and improving new bulk amorphous alloy compositions. Our failure to further expand our technology base could limit our growth opportunities and hamper our commercialization efforts.

**Future advances in materials science could render Liquidmetal alloys obsolete.**

Academic institutions and business enterprises frequently engage in the research and testing of new materials, including alloys and plastics. Advances in materials science could lead to new materials that have a more favorable combination of performance, processing, and cost characteristics than our alloys. The future development of any such new materials could render our alloys obsolete and unmarketable or may impair our ability to compete effectively.

**Our growth depends upon our ability to retain and attract a sufficient number of qualified employees.**

Our future growth and success will depend in part on our ability to retain key members of our management and scientific staff, particularly John Kang, our Chairman of the board of directors, and Dr. Atakan Peker, our Vice President of Technology. We do not have key man or similar insurance on any of these individuals. If we lose their services or the services of other key personnel, our financial results or business prospects may be harmed. Additionally, our future growth and success will depend in part on our ability to attract, train, and retain scientific engineering, manufacturing, sales, marketing, and management personnel. We cannot be certain that we will be able to attract and retain the personnel necessary to manage our operations effectively. Competition for experienced executives and scientists from numerous companies and academic and other research institutions may limit our ability to hire or retain personnel on acceptable terms. In addition, many of the companies with which we compete for experienced personnel have greater financial and other resources than we do. Moreover, the employment of non-citizens may be restricted by applicable immigration laws.

**We may not be able to successfully identify, consummate, or integrate strategic partnerships.**

As a part of our business strategy, we intend to pursue strategic partnering transactions that provide access to new technologies, products, markets, and manufacturing capabilities. These transactions could include licensing agreements, joint ventures, or even business combinations. For example, we may pursue transactions that will give us access to new technologies that are useful in connection with the composition, processing, or application of Liquidmetal alloys. We may not be able to successfully identify any potential strategic partnerships. Even if we do identify one or more potentially beneficial strategic partnering, we may not be able to consummate these transactions on favorable terms or obtain the benefits we anticipate from such a transaction.

**We may encounter manufacturing problems or delays or may be unable to produce high-quality products at acceptable costs.**

We have relatively limited experience in manufacturing our products and may be required to manufacture a range of products in high volumes while ensuring high quality and consistency. Although we currently own and operate a 166,000 square feet and a 14,400 square feet manufacturing facilities in South Korea and China, respectively, we cannot guarantee that these facilities will be able to produce the intended products with production yields, quality controls, and production costs that provide us with acceptable margins or profitability or satisfy the requirements of our customers.

**We expect to derive a substantial portion of our revenue from sales outside the United States, and problems associated with international business operations could affect our ability to manufacture and sell our products.**

We expect that we will continue to manufacture a substantial portion of our initial bulk Liquidmetal alloy products in our South Korean facility and derive a material portion of our revenues from customers in South Korea. For our fiscal year ended December 31, 2004, approximately 54% of our revenues came from customers located in South Korea. As a result, our manufacturing operations and financial results are subject to risks of political instability, including the risk of conflict between North Korea and South Korea and tensions between the United States and North Korea. In addition, we anticipate that the trend of foreign customers accounting for a significant portion of our total revenues may continue. Specifically, we expect to continue to derive a significant amount of revenue from sales to customers located in Asia. A downturn in the economies of Asian countries where our products will be sold, particularly South Korea's economy, could materially harm our business.

Consequently, our operations and revenue likely will be subject to a number of risks associated with foreign commerce, including:

staffing and managing our manufacturing facility located in South Korea and post-processing facility located in China;

product or material transportation delays or disruption, including the availability and costs of air and other transportation between our South Korean and Chinese facilities and the United States;

political and economic instability, including instability involving China and North Korea;

potentially adverse tax consequences;

burden of complying with complex foreign laws and treaties; and

trade protection laws, policies, and measures and other regulatory requirements affecting trade and investment, including loss or modification of exemptions for taxes and tariffs. Moreover, customers may sell finished goods that incorporate our components and products outside of the United States, which exposes us indirectly to additional foreign commerce risks.

**Our business is subject to the potential adverse consequences of exchange rate fluctuations.**

We expect to conduct business in various foreign currencies and will be exposed to market risk from changes in foreign currency exchange rates and interest rates. Fluctuations in exchange rates between the U.S. dollar and such foreign currencies may have a material adverse effect on our business, results of operations, and financial condition and could specifically result in foreign exchange gains and losses. The impact of future exchange rate fluctuations on our operations cannot be accurately predicted. To the extent that the percentage of our non-U.S. dollar revenue derived from international sales increases in the future, our exposure to risks associated with fluctuations in foreign exchange rates will increase further. Moreover, as a result of operating a manufacturing facility in South Korea, a substantial portion of our costs are and will continue to be denominated in the South Korean won. Adverse changes in the exchange rates of the South Korean won to the U.S. dollar will affect our costs of goods sold and operating margins and could result in exchange losses.

**Our inability to protect our licenses, patents, and proprietary rights in the United States and foreign countries could harm our business because third parties may take advantage of our research and development efforts.**

We have an exclusive license from Caltech to several patents and patent applications relating to amorphous alloy technology, and we have obtained several of our own patents. We also have the exclusive right to Caltech's inventions, proprietary information, know-how, and other technology relating to bulk amorphous alloys existing as of September 1, 2001. Our success depends in part on our ability to obtain and maintain patent and other proprietary right protection for our technologies and products in the United States and other countries. If we are unable to obtain or maintain these protections, we may not be able to prevent third parties from using our proprietary rights. Specifically, we must:

protect and enforce our license agreement with Caltech and our own patents and intellectual property;

exploit our license of the patented technology under our license agreement with Caltech as well as our own patents; and

operate our business without infringing on the intellectual property rights of third parties.

Caltech owns several issued United States patents covering the composition and method of manufacturing of the family of Liquidmetal alloys. We also hold several United States and corresponding foreign patents covering the manufacturing processes of Liquidmetal alloys and their use. The patents relating to our coatings expire on various dates between 2005 and 2022, and those relating to our bulk amorphous alloys between 2013 and 2025. If we are unable to protect our proprietary rights prior to the expiration of these patents, we may lose the advantage we have established as being the first to market bulk amorphous alloy products. In addition, the laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and we may encounter significant problems and costs in protecting our proprietary rights in these foreign countries.

Patent law is still evolving relative to the scope and enforceability of claims in the fields in which we operate. Our patent protection involves complex legal and technical questions. Our patents and those patents for which we have license rights may be challenged, narrowed, invalidated, or circumvented. We may be able to protect our proprietary rights from infringement by third parties only to the extent that our proprietary technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. Furthermore, others may independently develop similar or alternative technologies or design around our patented technologies. Litigation or other proceedings to defend or enforce our intellectual property rights could require us to spend significant time and money and could otherwise adversely affect our business.

**Other companies may claim that we infringe their intellectual property rights, which could cause us to incur significant expenses or prevent us from selling our products.**

Our success depends, in part, on our ability to operate without infringing on valid, enforceable patents or proprietary rights of third parties and not breaching any licenses that may relate to our technology and products. Future patents issued to third parties may contain claims that conflict with our patents and that compete with our products and technologies, and third parties could assert infringement claims against us. Any litigation or interference proceedings, regardless of their outcome, may be costly and may require significant time and attention of our management and technical personnel. Litigation or interference proceedings could also force us to:

stop or delay using our technology;

stop or delay our customers from selling, manufacturing or using products that incorporate the challenged intellectual property;

pay damages; or

enter into licensing or royalty agreements that may be unavailable on acceptable terms.

**Our level of indebtedness reduces our financial flexibility and could impede our ability to operate.**

As of September 30, 2005, our long-term debt was \$15.2 million, including the current portion of such debt. Our long-term debt (including the current portion) includes the following:

\$2.9 million in principal outstanding under our Korean subsidiary's loan from Kookmin Bank of South Korea;

\$2.4 million in principal outstanding under convertible notes issued in our August 19, 2004 private exchange; and

\$9.9 million in principal outstanding under convertible notes issued in our August 2, 2005 private placement.

Under our loan from Kookmin Bank, we are obligated to make equal monthly payments of principal and interest of \$0.11 million each through the period ending in September 2007. Under our 6% Senior Secured Notes Due July 2007 and 7% Senior Secured Notes Due August 2007, we are required to make cash interest payments to the noteholders of \$0.22 million per quarter until such notes are converted or paid. Unless such notes are converted, the \$2.9 million in aggregate principal amount under our 6% Senior Secured Notes Due July 2007 will become due in July 2007, provided that the holders of such notes may demand payment thereunder in July 2006. The \$9.9 million in aggregate principal amount under our 7% Senior Secured Notes Due August 2007 will become due in August 2007.

Our level of debt affects our operations in several important ways, including the following:

a significant portion of our cash flow from operations is likely to be dedicated to the payment of the principal of and interest on our indebtedness;

we may be unable to refinance our indebtedness on terms acceptable to us or at all;

our cash flow may be insufficient to meet our required principal and interest payments;

we may default on our obligations and the lenders may foreclose on their security interests that secure their loans; and

we may be unable to obtain additional loans as a result of covenants and agreements with existing debt holders.

**We have not complied with Section 404 of the Sarbanes-Oxley Act of 2002 for our fiscal year ended December 31, 2004, and we will likely not be able to comply with Section 404 for our 2005 fiscal year.**



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As directed by Section 404 of the Sarbanes-Oxley Act of 2002, or SOX, the SEC has adopted rules requiring public companies to include a report of management on the company's internal controls over financial reporting in their annual reports on Form 10-K. In addition, the public accounting firm auditing a public company's financial statements must attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting. Although these requirements were first applicable to our annual report on Form 10-K for our fiscal year ending December 31, 2004, we were unable to comply with these requirements for such fiscal year. As disclosed in our amended Form 10-K filed with the SEC on May 10, 2005, the time and resources necessary to complete the restatement of prior periods' financial statements delayed our ability to complete the internal documentation, assessment and evaluation of internal control over financial reporting, all of which are required to be undertaken to comply with Section 404 of SOX. This delay prevented our independent auditor from being able to satisfactorily complete a timely audit of our internal control over financial reporting as of December 31, 2004.

Due to these delays, we and our independent auditor determined that it would not be possible to complete the management's assessment and auditor's audit of our internal controls over financial reporting as of December 31, 2004, and accordingly our independent auditor has issued a disclaimer of opinion with respect to our internal control over financial reporting as of December 31, 2004, and such disclaimer was filed with our amended Form 10-K filed on May 10, 2005. We have been advised by the SEC that the filing of this disclaimer does not comply with the SEC's rules and regulations under Section 404, and the SEC has further advised us that this noncompliance has resulted in us being in violation of Section 13(a) under the Securities Exchange Act of 1934. Section 13(a) establishes the general requirement that public companies must file with the SEC, in accordance with such rules and regulations as the SEC may prescribe, such information, documents, and reports as the SEC may from time to time require for the protection of investors, including Form 10-Ks and 10-Qs.

In general, the SEC has broad authority under the Securities Exchange Act of 1934 to institute investigations, to seek injunctions, to seek monetary penalties, and to otherwise pursue enforcement actions for violations of Section 13(a), including a failure to file a Form 10-K or for the omission of necessary statements in a Form 10-K. Therefore, a violation under Section 404 of SOX or Section 13(a) of the Securities Exchange Act of 1934 could potentially subject an issuer to these same investigations and penalties. Section 404 of SOX is a relatively new legal requirement, and there is very little precedent establishing the consequences or appropriate response to a public company's failure to comply with Section 404. Accordingly, although we have discussed our Section 404 noncompliance with the SEC, we cannot predict what action, if any, the SEC may take against our company as a result of a failure to be compliant with our obligations under Section 404 of SOX or Section 13(a) of the Securities Exchange Act of 1934.

In addition to the foregoing, although our common stock was admitted to the OTC Bulletin Board for quotation on June 15, 2005, the SEC has further advised us that, as a result of our noncompliance with Section 404 for our 2005 fiscal year, it may not have been appropriate for the OTC Bulletin Board to admit our common stock for quotation on June 15, 2005. Consequently, there is no assurance that our common stock will remain eligible for quotation on the OTC Bulletin Board.

With respect to compliance with Section 404 of SOX for 2005, while we have devoted as much financial and internal resources during 2005 toward compliance as we deemed possible with our limited resources, we believe that there is significant work remaining to be done in a limited amount of time in order to be compliant as of December 31, 2005. In addition, effective December 1, 2005, our audit firm, Stonefield Josephson, Inc., resigned as our auditor, and we have not yet found a replacement auditor. Thus, we believe that we will likely not be able to complete our assessment of internal controls in accordance with Section 404 requirements as of December 31, 2005.

**We are currently a defendant in several stockholder class-action lawsuits and derivative actions.**

We and certain of our present and former officers and directors were named as defendants in nine purported class action complaints filed in the United States District Courts for the Middle District of Florida, Tampa Division, and the Central District of California, Southern Division, alleging violations of Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. In August 2004, four complaints were consolidated in the United States District Court for the Middle District of Florida under the caption *Primavera Investors v. Liquidmetal Technologies, Inc., et al.*, Case No. 8:04-CV-919-T-23EAJ. John Lee, Chris Cowley, Dwight Mamanteo, Scott Purcell and Mark Rabold were appointed co-lead plaintiffs (the Lead Plaintiffs). In September 2004, the five complaints filed in the Central District of California were transferred to the Middle District of Florida for consolidation with the *Primavera Investors* action. The Lead Plaintiffs served their Consolidated Amended Class Action Complaint on January 12, 2005. The Amended Complaint alleges that the Prospectus issued in connection with our initial public offering in May 2002 contained material misrepresentations and omissions regarding our historical financial condition and regarding a personal stock transaction by our chief executive officer. The Lead Plaintiffs further generally allege that during the proposed Class Period of May 21, 2002, through May 13, 2004, the defendants engaged in improper revenue recognition with respect to certain of our business transactions, failed to maintain adequate internal controls, and knowingly disclosed unrealistic but favorable information about market demand for and commercial viability of our products to artificially inflate the value of our stock. The Amended Complaint seeks unspecified compensatory damages and other relief. We, along with other defendants, filed a Motion to Dismiss Plaintiffs' Consolidated Amended Class Action Complaint on March 28, 2005. The Lead Plaintiffs served their Memorandum in Opposition to Defendants' Motion to Dismiss Consolidated Amended Class Action Complaint on June 3, 2005. We cannot predict when the court will rule on the Motion to Dismiss. We intend to vigorously defend against the class action. We cannot currently predict the impact or resolution of this litigation or reasonably estimate a range of possible loss, which could be material. The resolution of this lawsuit may harm our business and have a material adverse impact on our financial condition.

In addition to the above, certain of our present and former officers and directors, as well as our company as a nominal defendant, have been named in three shareholder derivative actions. Two shareholder derivative complaints were filed in California state court styled *Brian Clair, Derivatively on Behalf of Liquidmetal Technologies, Inc. v. John Kang, et al.*, Case No. 04CC00551, and *Joseph Durgin, Derivatively on Behalf of Liquidmetal Technologies, Inc. v. John Kang, et al.*, Case No. 04CC00553, both commenced in the Superior Court of Orange County, California. A third shareholder derivative complaint was filed in Florida federal court styled *Robert Story v. John Kang, et al.*, Case No. 8:04-CV-1587-T-23TBM, commenced in the Middle District of Florida, Tampa Division. These shareholder derivative lawsuits allege that the defendants breached various fiduciary duties and otherwise violated state law based primarily upon the same underlying facts and circumstances as alleged in the federal shareholder class action. The plaintiffs seek unspecified compensatory damages, restitution and disgorgement of profits, equitable and/or injunctive relief as permitted by law and other relief.

The two shareholder derivative complaints in California state court have been consolidated. Plaintiffs served a Consolidated Shareholder Derivative Complaint on October 12, 2004. The defendants served a Demurrer to the Consolidated Shareholder Derivative Complaint on November 22, 2004, seeking dismissal of that complaint. At a hearing on February 10, 2005, the court sustained the demurrer, dismissing the Consolidated Shareholder Derivative Complaint but giving the plaintiffs 45 days within which to amend the complaint. Plaintiffs filed their Consolidated Amended Shareholder Derivative Complaint on March 28, 2005. We, along with other defendants, filed a corrected demurrer on May 17, 2005, again seeking dismissal of the amended complaint. At a hearing on July 7, 2005, the Court again sustained the demurrer, dismissing the Consolidated Amended Shareholder Derivative Complaint but giving the plaintiffs 40 days within which to further amend the complaint. On August 16, 2005, the plaintiffs filed a Consolidated Second Amended Shareholder Derivative Complaint. We, along with the other defendants, filed a demurrer on September 15, 2005, again seeking dismissal of the second amended complaint. A hearing on that demurrer was held on October 19, 2005, but was continued pending resolution of a dispute regarding our participation in discovery in the California derivative action before the Motion to Dismiss the class action is resolved. On October 28, 2005, the presiding judge in the class action resolved the discovery dispute by denying our Motion to Stay Discovery in Related State Action, and we are now required to produce discovery materials in the California derivative action. Once those discovery materials are produced to and reviewed by the plaintiffs' counsel in the California derivative action, the judge will reconvene the hearing to determine whether the pending demurrer should be sustained without leave to amend.

In the Florida derivative action, the Plaintiff filed a First Amended Shareholder Derivative Complaint on November 22, 2004. Our Motion to Dismiss, which was filed on December 20, 2004, is fully briefed. We cannot predict when the court will rule on the Motion to Dismiss. We intend to vigorously defend against the derivative actions. We cannot currently predict the impact or resolution of this litigation or reasonably estimate a range of possible loss, which could be material. The resolution of these lawsuits may harm our business and have a material adverse impact on our financial condition.

**Evolving regulation of corporate governance and public disclosure may result in additional expenses and continuing uncertainty.**

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and new SEC regulations, are creating uncertainty for public companies. As a result of these new rules, we will incur additional costs associated with our public company reporting requirements. In addition, these new rules could make it more difficult or more costly for us to obtain certain types of insurance, including director and officer liability insurance, and this could make it difficult for us to attract and retain qualified persons to serve on our board of directors.

We are presently evaluating and monitoring developments with respect to new and proposed rules and cannot predict or estimate the amount of the additional costs we may incur or the timing of such costs. These new or changed laws, regulations, and standards are subject to varying interpretations, in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices.



We are committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest resources to comply with evolving laws, regulations, and standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new or changed laws, regulations, and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and we may be harmed.

**The time and cost associated with complying with government regulations to which we could become subject could have a material adverse effect on our business.**

Some of the applications that we have identified or may identify in the future may be subject to government regulations. For example, any medical devices such as precision ophthalmic instruments and orthopedic devices made from our alloys likely will be subject to extensive government regulation in the United States by the Food and Drug Administration, or FDA. Any medical device manufacturers to whom we sell Liquidmetal alloy products may need to comply with FDA requirements, including premarket approval or clearance under Section 510(k) of the Food Drug and Cosmetic Act before marketing in the United States Liquidmetal alloy medical device products. These medical device manufacturers may be required to obtain similar approvals before marketing these medical devices in foreign countries. Any medical device manufacturers with which we jointly develop and sell medical device products may not provide significant assistance to us in obtaining required regulatory approvals. The process of obtaining and maintaining required FDA and foreign regulatory approvals could be lengthy, expensive, and uncertain. Additionally, regulatory agencies can delay or prevent product introductions. The failure to comply with applicable regulatory requirements can result in substantial fines, civil and criminal penalties, stop sale orders, loss or denial of approvals, recalls of products, and product seizures.

In addition, the processing of beryllium, a minor constituent element of some of our alloys, can result in the release of beryllium into the workplace and the environment and in the creation of beryllium oxide as a by-product. Beryllium is classified as a hazardous air pollutant, a toxic substance, a hazardous substance, and a probable human carcinogen under environmental, safety, and health laws, and various acute and chronic health effects may result from exposure to beryllium. We are required to comply with certain regulatory requirements and to obtain a permit from the U.S. Environmental Protection Agency or other government agencies to process beryllium. Our failure to comply with present or future governmental regulations related to the processing of beryllium could result in suspension of manufacturing operations and substantial fines or criminal penalties.

To the extent that our products have the potential for dual use, such as military and non-military applications, they may be subject to import and export restrictions of the U.S. government, as well as other countries. The process of obtaining any required U.S. or foreign licenses or approvals could be time-consuming, costly, and uncertain. Failure to comply with import and export regulatory requirements can lead to substantial fines, civil and criminal penalties, and the loss of government contracting and export privileges.

**The existence of minority stockholders in our Liquidmetal Golf subsidiary creates potential for conflicts of interest.**

We directly own 79% of the outstanding capital stock of Liquidmetal Golf, our subsidiary that has the exclusive right to commercialize our technology in the golf market. The remaining 21% of Liquidmetal Golf stock is owned by approximately 95 stockholders of record. As a result, conflicts of interest may develop between us and the minority stockholders of Liquidmetal Golf. To the extent that our officers and directors are also officers or directors of Liquidmetal Golf, matters may arise that place the fiduciary duties of these individuals in conflicting positions. John Kang, our Chairman, President, and Chief Executive Officer, is also director of Liquidmetal Golf. In addition, James Kang, Founder and Director, is also a director of Liquidmetal Golf.



**Our stock price has experienced volatility and may continue to experience volatility.**

During the first nine months of 2005, the highest bid price for our common stock was \$2.85 per share, while the lowest bid price during that period was \$1.10 per share. The trading price of our common stock could continue to fluctuate widely due to:

quarter-to-quarter variations in results of operations;

loss of a major customer;

announcements of technological innovations by us or our potential competitors;

changes in, or our failure to meet, the expectations of securities analysts;

new products offered by us or our competitors;

announcements of strategic relationships or strategic partnerships; or

other events or factors that may be beyond our control.

In addition, the securities markets in general have experienced extreme price and trading volume volatility in the past. The trading prices of securities of many companies at our stage of growth have fluctuated broadly, often for reasons unrelated to the operating performance of the specific companies. These general market and industry factors may adversely affect the trading price of our common stock, regardless of our actual operating performance. If our stock price is volatile, we could face securities class action litigation, which could result in substantial costs and a diversion of management's attention and resources and could cause our stock price to fall.

**We have never paid dividends on our common stock, and we do not anticipate paying any cash dividends in the foreseeable future.**

We have paid no cash dividends on our common stock to date. We currently intend to retain our future earnings, if any, to fund the development and growth of our businesses, and upon the completion of this offering, we do not anticipate paying any cash dividends on our capital stock for the foreseeable future. In addition, the terms of existing or any future debts may preclude us from paying dividends on our stock. As a result,

capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

**Antitakeover provisions of our certificate of incorporation and bylaws and provisions of applicable corporate law could delay or prevent a change of control that you may favor.**

Provisions in our certificate of incorporation, our bylaws, and Delaware law could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. These provisions could discourage potential takeover attempts and could adversely affect the market price of our shares. Because of these provisions, you might not be able to receive a premium on your investment. These provisions:

authorize our board of directors, without stockholder approval, to issue up to 10,000,000 shares of blank check preferred stock that could be issued by our board of directors to increase the number of outstanding shares and prevent a takeover attempt;

limit stockholders' ability to call a special meeting of our stockholders;

provide for a classified board of directors; and

establish advance notice requirements to nominate directors for election to our board of directors or to propose matters that can be acted on by stockholders at stockholder meetings.

The provisions described above could delay or make more difficult transactions involving a change in control of us or our management.



**FORWARD-LOOKING STATEMENTS**



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This prospectus may contain forward-looking statements that relate to our management's current expectations, estimates, forecasts, and projections about our company and its business. Any statement in this prospectus that is not a statement of historical fact is a forward-looking statement, and in some cases, words such as believe, estimate, project, expect, intend, may, anticipate, plans, seeks, and similar words identify forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual outcomes and results to differ materially from the anticipated outcomes or result. These statements are not guarantees of future performance, and undue reliance should not be placed on these statements. It is important to note that our actual results could differ materially from what is expressed in our forward-looking statements due to, among other things, the matters discussed in the RISK FACTORS section of this prospectus, as well as the following risks and uncertainties:

Our history of losses and uncertainty surrounding our ability to achieve profitability;

Our limited history of manufacturing products from bulk amorphous alloys;

Lengthy customer adoption cycles and unpredictable customer adoption practices;

Our ability to identify, develop, and commercialize new product applications;

Competition from other materials;

Our ability to consummate strategic partnerships in the future;

The potential for manufacturing problems or delays;

Potential difficulties associated with protecting or expanding our intellectual property position; and

Pending stockholder litigation against our company.

We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

**SELLING STOCKHOLDERS**

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On behalf of the selling stockholders named in the table below (including their donees, pledgees, transferees or other successors-in-interest who receive any of the shares covered by this prospectus), we are registering, pursuant to the registration statement of which this prospectus is a part, all 14,937,509 shares of our common stock which will become issuable upon:

the conversion of 6% Senior Secured Notes Due July 2007 (the July 2007 Notes ), which notes were issued by us to such selling stockholders on July 29, 2004;

the conversion of 7% Senior Secured Convertible Notes Due August 2007 (the August 2007 Notes ), which notes were issued by us to such selling stockholders on August 2, 2005;

the exercise of outstanding common stock purchase warrants issued by us on March 1, 2004 and having an exercise price of \$3.00 per share;

the exercise of outstanding common stock purchase warrants issued by us on June 13, 2005 and having an exercise price of \$2.00 per share;

the exercise of outstanding common stock purchase warrants issued by us on August 2, 2005 and having an exercise price of \$2.00 per share; and

the exercise of an outstanding non-qualified stock option issued by us to one individual, Paul Azinger, on January 1, 2001 and having an exercise price of \$1.16 per share.

Other than Mr. Azinger, the selling stockholders are investors that provided financing to us or are those that acted as placement agents in our private placement financings. We are registering the shares to permit the selling stockholders to offer these shares for resale from time to time. The selling stockholders may sell all, some or none of the shares covered by this prospectus. All information with respect to beneficial ownership has been furnished to us by the respective selling stockholders. For more information, see Plan of Distribution. None of the selling stockholders has had any material relationship with us within the past three years other than as a result of the ownership of shares of our common stock.

The table below lists the selling stockholders and information regarding their ownership of common stock as of November 1, 2005:

<b>SELLING STOCKHOLDER</b>	<b>NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO THIS</b>	<b>NUMBER OF SHARES BEING OFFERED HEREBY(3)</b>	<b>SHARES OWNED AFTER OFFERING(3)</b>
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	OFFERING		NUMBER	PERCENTAGE(4)
Jess S. Morgan & Co., Inc.	2,428,768(1)	2,428,768	0	*
Prana	227,667(1)	227,667	0	*
DKR Soundshore Oasis Holding Fund Ltd.	554,167(1)	554,167	0	*
Rodd Friedman	228,906(1)	228,906	0	*
Bear Stearns f/b/o Rosen Capital LP M/P/P Plan and Bruce Rosen TTEE	57,750(1)	57,750	0	*
Caydal, LLC	58,334(1)	58,334	0	*
Marlin Fund, LP	338,627(1)	338,627	0	*

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SELLING STOCKHOLDER	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO THIS OFFERING	NUMBER OF SHARES BEING OFFERED HEREBY(3)	SHARES OWNED AFTER OFFERING(3)	
Marlin Fund II, LP	63,001(1)	63,001	0	*
Marlin Fund Offshore, Ltd. c/o Hemisphere Management (B.V.I.) Limited	385,877(1)	385,877	0	*
Larry Bouts	29,167(1)	29,167	0	*
Really Cool Group Ltd.	116,667(1)	116,667	0	*
Myron Neugeboren	46,000(1)	46,000	0	*
Jonas Brachfeld	14,000(1)	14,000	0	*
Greg Osborn	90,731(1)	90,731	0	*
Richard Molinsky	35,000(1)	35,000	0	*
Richard and Joanne Kane	23,334(1)	23,334	0	*
Ricardo Salas	284,710(1)	284,710	0	*
Wry Ltd.	35,000(1)	35,000	0	*
Keith Barksdale	101,213(1)	101,213	0	*
Winvest Venture Partners, Inc.	527,751(1)	527,751	0	*
Eric Brachfeld	83,956(1)	83,956	0	*
Edward Neugeboren	95,433(1)	95,433	0	*
Dolphin Direct Equity Partners, L.P.	62,500(1)	62,500	0	*
Dolphin Offshore Partners, L.P.	375,000(1)	375,000	0	*
Harvard Developments Inc.	481,826(1)	481,826	0	*
Echo Capital Growth Corporation	300,000(1)	300,000	0	*
Terrence L. Mealy	265,913(1)	265,913	0	*
Shinnston Enterprises Ltd.	100,000(1)	100,000	0	*
Shea Diversified Investments, Inc.	1,125,000(1)	1,125,000	0	*
Commonwealth Associates, L.P.	150,000(1)	150,000	0	*
Neil I. Goldman	225,000(1)	225,000	0	*
LBJ Holdings, LLC	112,500(1)	112,500	0	*

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<b>SELLING STOCKHOLDER</b>	<b>NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO THIS OFFERING</b>	<b>NUMBER OF SHARES BEING OFFERED HEREBY(3)</b>	<b>SHARES OWNED AFTER OFFERING(3)</b>	
Jay Stout	75,000(1)	75,000	0	*
MicroCapital Fund Ltd.	375,000(1)	375,000	0	*
MicroCapital Fund L.P.	750,000(1)	750,000	0	*
Journeys End Partners, LLC	225,000(1)	225,000	0	*
Wynnefield Partners Small Cap Value LP	315,000(1)	315,000	0	*
Wynnefield Partners Small Cap Value LP I	412,500(1)	412,500	0	*
Wynnefield Small Cap Value Offshore Fund, Ltd.	397,500(1)	397,500	0	*
Min Capital Corp Retirement Trust	112,500(1)	112,500	0	*
Middlebury Capital, LLC	34,500(1)	34,500	0	*
Michael Falk	100,694	100,694	0	*
Robert O Sullivan	100,694	100,694	0	*
Shea Ventures, LLC	31,826	31,826	0	*
Ed Shea	4,551	4,551	0	*
Billy Walters	16,136	16,136	0	*
Amos Investments, LLC	15,913	15,913	0	*
Keith Rosenbloom	7,468	7,468	0	*
Carl Kleidman	22,468	22,468	0	*
Joseph Pallotta	16,019	16,019	0	*
Inder Tallur	2,886	2,886	0	*
Daniel Parker Living Trust	1,994	1,994	0	*
Douglas Levine	976	976	0	*
Greg Manocherian	106	106	0	*
Jeffrey Frank	46,125	46,125	0	*
Valiant Enterprises, LLC	36,900	36,900	0	*



SELLING STOCKHOLDER	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO THIS OFFERING	NUMBER OF SHARES BEING OFFERED HEREBY(3)	SHARES OWNED AFTER OFFERING(3)	
Bonnie Giusto	1,500	1,500	0	*
Scott Lee	2,500	2,500	0	*
Tom Hodges	250	250	0	*
Vicki Johannes	1,000	1,000	0	*
Cecilio Rodriguez	3,500	3,500	0	*
Paul Azinger	376,345(2)	376,345	0	*

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\* Less than 1.0%.

(1) Includes the number of shares of common stock issuable pursuant to the July 2007 Notes, August 2007 Notes, and/or the above-described common stock purchase warrants.

(2) Represents the number of shares issuable pursuant to Mr. Azinger's non-qualified stock option agreement dated January 1, 2001.

(3) Assumes that the stockholders dispose of all the shares of common stock covered by this prospectus and do not acquire or dispose of any additional shares of common stock. The selling stockholders are not representing, however, that any of the shares covered by this prospectus will be offered for sale, and the selling stockholders reserve the right to accept or reject, in whole or in part, any proposed sale of shares. On August 2, 2005, we entered into an amended and restated registration rights agreement with the selling stockholders listed above (other than Mr. Azinger). See the section of this prospectus entitled "DESCRIPTION OF CAPITAL STOCK-- Registration Rights". Under the amended and restated registration rights agreement, we are required to file a resale registration statement for the shares underlying all of our outstanding convertible notes and warrants to enable the resale of such shares by the selling stockholders on a delayed or continuous basis under Rule 415 of the Securities Act. To account for potential adjustments in the number of shares issuable pursuant to such notes and/or warrants, the agreement provides that we are required to include in such registration statement no less than the sum of 1.2 times the number of shares issuable upon the conversion of such notes and the exercise of such warrants as of the date of the amended and registration rights agreement. Accordingly, the full number of shares set forth in this column may not ultimately become issuable to the selling stockholders under such notes and/or warrants.

(4) The percentage of common stock beneficially owned is based on 42,245,299 shares of common stock outstanding on November 1, 2005.

**USE OF PROCEEDS**



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The selling stockholders will receive all of the proceeds from the sale of the common stock offered by this prospectus. We will not receive any of the proceeds from the sale of common stock by the selling stockholders, although we may receive proceeds from the exercise of warrants by the selling stockholders or the

exercise of Mr. Azinger's stock option, if exercised. We cannot guarantee that the warrants or the option will be exercised by the selling stockholders.

**DIVIDEND POLICY**



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Historically, we have not paid any dividends on our common stock, and we do not anticipate paying any dividends on our common stock in the foreseeable future. We expect to retain any earnings generated from our operations for use in our business. Any future determination as to the payment of dividends will be at the discretion of our Board of Directors and will depend upon our future operating results, financial condition and capital requirements, general business conditions and such other factors as our Board of Directors deems relevant.

**MARKET FOR AND PRICE RANGE OF THE COMMON STOCK**



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Our common stock is currently quoted on the Nasdaq OTC Bulletin Board under the symbol LQMT.OB. From the period July 16, 2004 through June 14, 2005, we were delisted from the Nasdaq Stock Market and our common stock was quoted on the pink sheets. We were re-listed on the Nasdaq's OTC Bulletin Board on June 15, 2005. On December 6, 2005, the last reported sales price of our common stock was \$1.11 per share. As of November 1, 2005, we had 245 record holders of our common stock.

The following table sets forth, on a per share basis, the range of high and low bid information for the shares of our common stock for each full quarterly period within the two most recent fiscal years and any subsequent interim period for which financial statements are included. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

<b>2005</b>	<b>High</b>	<b>Low</b>
Third Quarter	\$ 2.15	\$ 1.52
Second Quarter	\$ 2.25	\$ 1.28
First Quarter	\$ 2.85	\$ 1.10

<b>2004</b>	<b>High</b>	<b>Low</b>
Fourth Quarter	\$ 4.00	\$ 1.75
Third Quarter	\$ 2.33	\$ 0.71
Second Quarter	\$ 3.68	\$ 0.55
First Quarter	\$ 4.52	\$ 2.50

<b>2003</b>	<b>High</b>	<b>Low</b>
Fourth Quarter	\$ 3.29	\$ 1.95
Third Quarter	\$ 6.50	\$ 3.03
Second Quarter	\$ 7.20	\$ 4.11
First Quarter	\$ 10.41	\$ 5.00

**SELECTED FINANCIAL DATA**

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The following table shows our selected consolidated financial data as of and for the years ended December 31, 2000 through 2004. The selected consolidated financial data as of and for the years ended December 31, 2002, 2003 and 2004 are derived from our audited consolidated financial statements included elsewhere in this prospectus. The selected consolidated financial data as of and for the fiscal year ended December 31, 2000 and 2001 are derived from our unaudited and audited financial statements not included in this prospectus. The selected consolidated financial data as of and for the nine months ended September 30, 2004 and 2005 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. Such unaudited interim financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for a fair presentation of our financial position, results of operations and cash flows for the nine-month periods ended September 30, 2004 and 2005. The following information should be read with MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS and our Consolidated Financial Statements and Notes thereto included elsewhere in this prospectus.

These statements should be read in conjunction with restatement footnote 2 in the notes to consolidated financial statements in the fiscal 2003 annual report on Form 10-K filed on November 10, 2004, which reflects the restatements of prior year transactions.

	Nine Months Ended September 30,		Year Ended December 31,					
	2005	2004	2004	2003	2002	2001	2000	
	(unaudited)	(unaudited)			(restated)	(restated)	(unaudited)	
	(in thousands, except per share data)							
<b>Consolidated Statements of Operations Data:</b>								
Revenue	\$ 10,912	\$ 14,958	\$ 17,429	\$ 13,658	\$ 9,138	\$ 3,882	\$ 4,200	
Cost of sales	10,553	9,273	12,168	18,162	5,656	1,924	1,983	
Gross profit	359	5,685	5,261	(4,504)	3,482	1,958	2,217	
Operating expenses:								
Selling, general, and administrative	6,521	9,178	11,591	17,729	13,099	5,239	1,449	
Research and development	806	1,060	1,467	8,780	11,825	1,726	455	
Impairment of goodwill				184				
Impairment of long lived assets	3,394			2,684				
Total operating expenses	10,721	10,238	13,058	29,377	24,924	6,965	1,904	
Loss before interest, other income, income taxes, minority interest and discontinued operations	(10,362)	(4,553)	(7,797)	(33,881)	(21,442)	(5,007)	313	
Loss from extinguishments of debt	(1,247)	(1,663)	(1,663)					
Change in value of warrants, net	1,145	846	747					
Other income		302	302					
Interest expense	(3,325)	(3,242)	(3,603)	(390)	(1,109)	(1,103)	(188)	
Interest income	14	34	37	304	506	8		
Gain on sale of marketable securities				1,178	832			
Loss before minority interest and discontinued operations	(13,775)	(8,276)	(11,977)	(32,789)	(21,213)	(6,102)	125	
Minority interest in loss of consolidated subsidiary				21	118			

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Loss from continuing operations	(13,775)	(8,276)	(11,977)	(32,768)	(21,095)	(6,102)	125
Discontinued Operations:							
Income (loss) from discontinued operations, net		(749)	(749)	(964)	83	(5,973)	(8,938)
Gain (loss) from disposal of discontinued operations, net				127	1,556	(11,949)	
Net loss	\$ (13,775)	\$ (9,025)	\$ (12,726)	\$ (33,605)	\$ (19,456)	\$ (24,024)	\$ (8,813)
Loss per share from continuing operations	\$ (0.33)	\$ (0.20)	\$ (0.29)	\$ (0.79)	\$ (0.54)	\$ (0.18)	\$ 0.00
Income (loss) per share from discontinuing operations	\$	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ 0.04	\$ (0.54)	\$ (0.30)
Net loss per share	\$ (0.33)	\$ (0.22)	\$ (0.31)	\$ (0.81)	\$ (0.50)	\$ (0.72)	\$ (0.30)
Weighted average shares basic and diluted	41,717	41,610	41,610	41,505	38,714	33,323	30,884

	As of September 30,				As of December 31,			
	2005	2004	2004	2003	2002	2001	2000	
	(unaudited)	(unaudited)			(restated)	(restated)	(unaudited)	
	(in thousands, except per share data)							
<b>Consolidated Balance Sheet</b>								
<b>Data:</b>								
Cash and cash equivalents	\$ 933	\$ 1,396	\$ 742	\$ 3,127	\$ 25,058	\$ 2,230	\$ 124	
Working capital (deficiency)	(9,768)	(2,550)	(10,241)	(698)	25,812	(9,573)	(1,960)	
Total assets	23,001	30,953	28,508	30,852	24,845	6,680	1,945	
Long-term debt, including								
current portion	8,157	8,476	8,609	4,047	0	2,988	2,506	
Shareholders' equity (deficiency)	(972)	11,335	8,860	16,163	(50,599)	(7,504)	(3,680)	

**SUPPLEMENTARY FINANCIAL INFORMATION**

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The following information presents our unaudited quarterly operating results for 2005, 2004, and 2003. The data has been prepared by Liquidmetal Technologies, Inc. on a basis consistent with the Consolidated Financial Statements included elsewhere in this registration statement, and includes all adjustments, consisting of normal recurring accruals, that we consider necessary for a fair presentation thereof. These operating results are not necessarily indicative of our future performance.

Revenues in 2005 have decreased relative to their respective quarters in 2004 due to a decrease in demand for conventional hinge components used in certain cellular phone models as well as decreased activity from research and development services related primarily to defense applications. However, during 2005, Revenues have steadily increased each quarter as the Company has expanded its sales and marketing efforts into various other electronic components including sliding hinges, brackets and antennae. In addition, our Liquidmetal coatings revenue has steadily increased due to higher demands for equipment in the oil drilling industry. Our increase in cost of sales was a result of decreases in bulk Liquidmetal alloy business. Further, cost of sales as a percentage of revenue has increased as a result of lower business volumes generated from our bulk Liquidmetal alloys. Significant portion of our manufacturing costs continue to remain fixed. We believe that higher manufacturing volumes and greater mix of higher-margin products in the future will cause the gross profit to improve over time.

Included in the second quarter of 2005 was an impairment charge for long lived assets of \$3.4 million. Impairment charge represents write-down of \$1.7 million of raw materials considered to be long term inventory and \$1.7 million of idle equipment. While we may use the excess raw materials beyond one year to fulfill future demand, we did not foresee use of this inventory in the foreseeable future. Further, while we have marketed the idle equipment for ultimate sale since early 2004, we were unable to sell this equipment.

During the fourth quarter of 2004, although our revenues were comparable to prior year, we had a decrease in revenue of \$2.1 million compared to the third quarter due to an unanticipated and temporary decrease in orders from one of our customers, Samsung. In addition, included in our fourth quarter cost of sales is a \$0.4 million charge related to certain hinge finished goods used in Samsung's cell phone models which were nearing their end of life. The Company experienced a gross loss of \$0.4 million for the fourth quarter due to the one time charge of cost of sales and also due to the fact that our cost of sales from our Liquidmetal bulk alloy segment includes primarily fixed costs from our labor and equipment expenses.

Included in our 2003 fourth quarter results are costs charged to our cost of sales for the write-down of raw materials of \$1.0 million and a \$2.8 million write-down of inventory and equipment recorded in connection with a dispute settlement with Growell. In addition, as a result of the Company's cost reduction measures taken in the fourth quarter, our selling, general, and administrative expenses include severance costs of \$2.4 million and office relocation costs of \$0.8 million.

These statements should be read in conjunction with restatement footnote 2 in the notes to consolidated financial statements in the fiscal 2003 annual report on Form 10-K filed on November 10, 2004, which reflects the restatements of prior year transactions.

Pursuant to Accounting Principles Board Opinion No. 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, we reclassified our consolidated financial statements to reflect the discontinuation of our equipment manufacturing operations and retail golf business. The revenue, costs and expenses, assets and liabilities, and cash flows of the equipment manufacturing and our retail golf businesses were segregated in our accompanying Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Loss, and Consolidated Statements of Cash Flows. The net operating results, net assets, and net cash flows of the equipment manufacturing and retail golf businesses were reported as discontinued operations in our annual consolidated financial statements and in the condensed consolidated financial statements included in this report.





Consolidated Statements of Operations Data:	9/30/05	For the Three Months Ended		3/31/05
		6/30/05		
	(In thousands, except per share data)			
Revenue	\$ 4,342	\$ 3,727	\$ 2,843	
Cost of sales	3,756	3,962	2,835	
Gross profit (loss)	586	(235)	8	
Operating expense:				
Selling, general, and administrative	2,346	1,567	2,590	
Research and development	196	213	397	
Impairment of long lived assets		3,394		
Total operating expenses	2,560	5,174	2,987	
Loss from operations	(1,974)	(5,409)	(2,979)	
Loss on extinguishments of debt	(1,247)			
Change in value of warrants, net				
Other income (expense), net	(1,112)	(100)	133	
Interest expense, net	(1,152)	(908)	(1,251)	
Loss from operation before income taxes and discontinued operations	(3,261)	(6,417)	(4,097)	
Income taxes				
Loss from continuing operations	(3,261)	(6,417)	(4,097)	
Loss from discontinued operations, net of tax				
Net loss	\$ (3,261)	\$ (6,417)	\$ (4,097)	
Loss per share from continuing operations basic and diluted	\$ (0.08)	\$ (0.15)	\$ (0.10)	
Weighted average common shares used to compute loss per share from continuing operations basic and diluted	42,164	41,610	41,610	

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Consolidated Statements of Operations Data:	12/31/04	For the Three Months Ended		3/31/04
		9/30/04	6/30/04	
		(In thousands, except per share data)		
Revenue	\$ 2,471	\$ 4,615	\$ 4,055	\$ 6,288
Cost of sales	2,895	3,241	2,475	3,557
Gross profit (loss)	(424)	1,374	1,580	2,731
Operating expense:				
Selling, general, and administrative	2,413	3,569	2,544	3,065
Research and development	407	374	345	341
Total operating expenses	2,820	3,943	2,889	3,406
Loss from operations	(3,244)	(2,569)	(1,309)	(675)
Loss on extinguishments of debt		(1,663)		
Change in value of warrants, net	(99)	(434)	694	586
Other income (expense), net		302		
Interest income (expense), net	(358)	(1,805)	(1,144)	(259)
Loss from operation before income taxes and discontinued operations	(3,701)	(6,169)	(1,759)	(348)
Income taxes				
Loss from continuing operations	(3,701)	(6,169)	(1,759)	(348)
Loss from discontinued operations, net of tax			(356)	(393)
Net loss	\$ (3,701)	\$ (6,169)	\$ (2,115)	\$ (741)
Loss per share from continuing operations basic and diluted	\$ (0.09)	\$ (0.15)	\$ (0.04)	\$ (0.01)
Weighted average common shares used to compute loss per share from continuing operations basic and diluted	41,610	41,610	41,610	41,610

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Consolidated Statements of Operations Data:	12/31/03	For the Three Months Ended			3/31/03 (restated)
		9/30/03	6/30/03 (restated)		
		(In thousands, except per share data)			
Revenue	\$ 2,645	\$ 3,281	\$ 4,533	\$ 3,199	
Cost of sales	6,761	4,595	4,146	2,660	
Gross profit (loss)	(4,116)	(1,314)	387	539	
Operating expense:					
Selling, general, and administrative	5,435	3,661	4,571	4,062	
Research and development	1,025	981	2,736	4,038	
Impairment of goodwill	184				
Impairment of long-lived assets	2,684				
Total operating expenses	9,328	4,642	7,307	8,100	
Loss from operations	(13,444)	(5,956)	(6,920)	(7,561)	
Interest income (expense), net	(86)	(53)	(12)	65	
Gain on sale of marketable securities held-for-sale			1,178		
Loss from operations before income taxes, minority interest and discontinued operations	(13,530)	(6,009)	(5,754)	(7,496)	
Income taxes					
Minority interest in loss (income) of consolidated subsidiary	(5)	23	10	(7)	
Loss from continuing operations	(13,535)	(5,986)	(5,744)	(7,503)	
Income (loss) from discontinued operations	(412)	(115)	(317)	7	
Net loss	\$ (13,947)	\$ (6,101)	\$ (6,061)	\$ (7,496)	
Loss per share from continuing operations basic and diluted	\$ (0.33)	\$ (0.14)	\$ (0.14)	\$ (0.18)	
Weighted average common shares used to compute loss per share from continuing operations basic and diluted	41,610	41,610	41,597	41,390	

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements included elsewhere in this prospectus. This discussion contains forward-looking statements. See Forward-Looking Statements for a discussion of uncertainties, risks and assumptions associated with these statements.*

**Overview**



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Our revenues are derived from two principal operating segments: Liquidmetal alloy industrial coatings and bulk Liquidmetal alloy products. Liquidmetal alloy industrial coatings are used primarily as a protective coating for industrial machinery and equipment, such as drill pipe used by the oil drilling industry and boiler tubes used in coal-burning power plants. Bulk Liquidmetal alloy segment revenue includes sales of parts or components of electronic devices, medical products, and sports and leisure goods; tooling and prototype parts (including demonstration parts and test samples) for customers with products in development, product licensing and arrangements, and research and development revenue relating primarily to defense and medical applications. We expect that these sources of revenue will continue to significantly change the character of our revenue mix.

The cost of sales for our Liquidmetal coatings segment consists primarily of the costs of outsourcing our manufacturing to third parties. Consistent with our expectations, our cost of sales has been increasing over historical results as we further build our bulk Liquidmetal alloy business. Although we plan to continue outsourcing the manufacturing of our coatings, we will internally manufacture many products derived from our bulk Liquidmetal alloys.

Selling, general, and administrative expenses currently consist primarily of salaries and related benefits, severance costs, travel, consulting and professional fees, depreciation and amortization, insurance, office and administrative expenses, and other expenses related to our operations.

Research and development expenses represent salaries, related benefits expense, stock-based compensation, depreciation of research equipment, consulting and contract services, expenses incurred for the design and testing of new processing methods, expenses for the development of sample and prototype products, and other expenses related to the research and development of Liquidmetal alloys. Costs associated with research and development activities are expensed as incurred. We plan to enhance our competitive position by improving our existing technologies and developing advances in amorphous alloy technologies. We believe that our research and development efforts will focus on the discovery of new alloy compositions, the development of improved processing technology, and the identification of new applications for our alloys.

We maintain certain of our raw material inventories in amounts in excess of our operating cycle of one year due to the nature of our manufacturing process, production lead time, and the recyclability of our raw material. These inventories were classified as long-term inventory as of September 30, 2005 and December 31, 2004. We have determined that its current and projected raw material requirements are not sufficient enough to warrant the use of such raw materials in the foreseeable future. As a result, we determined that the carrying value of raw materials held by its subsidiary, Liquidmetal Korea, exceeded its fair value in the amount of \$1,653 as of September 30, 2005.

Idle equipment consists of certain equipment held by the Company for use in expansion of bulk alloy parts manufacturing. Due to excess manufacturing capacity, the Company classified the equipment as idle equipment as of September 30, 2005 and December 31, 2004. While the equipment may be used internally to meet future capacity requirements, considering our current revenue and foreseeable production requirements, we do not anticipate utilizing this equipment internally in the near future. As a result, we determined that the carrying value of idle equipment held by its subsidiary, Liquidmetal Korea, exceeded its fair value in the amount of \$1,741 as of September 30, 2005.

On August 4, 2004, we established a sub-assembly plant in the city of Weihai in Shandong province of China under Weihai Liquidmetal Company Limited, which is 100 percent owned by Liquidmetal Korea, to facilitate our bulk alloy manufacturing business. Weihai Liquidmetal is consolidated into Liquidmetal Technologies with all intercompany transactions eliminated.

In conjunction with the divestiture of our Dongyang and Taesung subsidiaries in March and June 2004, respectively, we decided to discontinue our equipment manufacturing business in order to conform our operations to our broader corporate business strategy. Pursuant to Accounting Principles Board Opinion No. 30, Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, we reclassified our consolidated financial statements to reflect the discontinuation of our equipment manufacturing operations. The revenue, costs and expenses, assets and liabilities, and cash flows of the equipment manufacturing business were segregated in our financial statements.

Impairment of goodwill represents the write-down of the goodwill balance of Dongyang Yudoro ( Dongyang ), our 51% owned subsidiary in South Korea. During 2003, Dongyang experienced net losses as a result of a continuing economic downturn in markets for its machinery products. These events, along with Dongyang's operating cash flow losses and uncertainty surrounding its future cash flows, led us to evaluate our investment for recoverability as of December 31, 2003. As a result, we determined that the carrying value of our investment in Dongyang exceeded its fair value as of December 31, 2003 in the amount of \$184. In March 2004, we sold our 51% investment in Dongyang to the 49% minority stockholder.

Impairment of Long-Lived Assets consists of a write-down of the building of our manufacturing facility in South Korea on the basis that the fair value of this building was determined to be less than the book value as of December 31, 2003. Our significant operational difficulties in 2003 along with our history of operating or cash flow losses and uncertainty surrounding our future cash flows, led us to evaluate our long-lived assets for recoverability as of December 31, 2003. As a result, we determined that the carrying value of our manufacturing plant in Pyongtaek, South Korea exceeded its fair value as of December 31, 2003 in the amount of \$2,684. The fair value of the building was based on the average of two independent appraisals of the building obtained in the first quarter of 2004.

On May 21, 2003, we completed a reincorporation by transitioning from a California corporation to a Delaware corporation. The reincorporation was effected through the merger of the former California entity into a newly created wholly owned Delaware subsidiary. The reincorporation changed the legal domicile of our company but did not result in any change to our business, management, employees, fiscal year, assets or liabilities, or location of facilities. As part of the reincorporation, each share of the California corporation was automatically converted into one share of the Delaware corporation. In addition, total authorized shares decreased from 200,000,000 shares to 100,000,000 shares.

The following discussion and analysis of our financial condition and results of operations focuses on the historical results of our continuing operations and reflects the effect of restating our 2002 and 2003 (2003 quarterly filings) financial statements for proper revenue recognition as disclosed in Note 2 in the notes to the consolidated financial statements in the fiscal 2003 annual report on Form 10-K filed on November 10, 2004.

## Results of Operations





*Comparison of the nine months ended September 30, 2005 and 2004*

*Revenue.* Revenue decreased \$4.1 million to \$10.9 million for the nine months ended September 30, 2005 from \$15.0 million for the nine months ended September 30, 2004. The decrease included a \$2.6 million decrease from restatement of revenues from 2003 to 2004 as a part of our 2003 financial statement restatement which resulted in one-time recognition of revenues during the first quarter of 2004, a decrease of \$1.7 million from the sales and prototyping of parts manufactured from bulk Liquidmetal alloys to consumer electronics customers as a result of decreased demand for conventional hinge components used in certain cellular phone models, and a decrease of \$1.0 million from decreased activity from research and development services related primarily to defense, leisure, and luxury goods applications, offset by an increase of \$1.2 million from sale of our coatings products.

*Cost of Sales.* Cost of sales increased to \$10.6 million, or 97% of revenue, for the nine months ended September 30, 2005 from \$9.3 million, or 62% of revenue, for the nine months ended September 30, 2004. The increase was a result of decreases in bulk Liquidmetal alloy business. Cost of sales as a percentage of revenue has increased as a result of lower business volumes generated from our bulk Liquidmetal alloys. Significant portion of our manufacturing costs continue to remain fixed. We believe that higher manufacturing volumes and greater mix of higher-margin products in the future will cause the gross profit to improve over time. The cost to manufacture parts from our bulk Liquidmetal alloys is variable and differs based on the unique design of each product. However, the cost of sales for the products sold by the coatings business segment is generally consistent because the Liquidmetal coatings products are produced by third parties and sold wholesale to various industries.

*Selling, General, and Administrative Expenses.* Selling, general, and administrative expenses decreased to \$6.5 million, or 60% of revenue, for the nine months ended September 30, 2005 from \$9.2 million, or 61% of revenue, for the nine months ended September 30, 2004. This decrease was primarily a result of decrease in professional and contracted services of \$1.9 million, decrease in advertising and promotions expense of \$0.2 million, decrease in bad debt expenses of \$0.1 million, decrease in product warrant expense of 0.1 million, decrease in insurance costs of \$0.1 million, decrease in amortization and depreciation costs of \$0.1 million, and decrease in travel costs of \$0.1 million. These and other decreases in selling, general and administrative expenses represent the Company's efforts to manage costs and focus on our core business while continuing to build our corporate infrastructure required to prepare for and support the anticipated growth of our bulk Liquidmetal alloy business.

*Research and Development Expenses.* Research and development expenses decreased to \$0.8 million, or 7% of revenue, for the nine months ended September 30, 2005 from \$1.1 million, or 7% of revenue, for the nine months ended September 30, 2004. The Company continues to perform research and development of new Liquidmetal alloys and related processing capabilities, develop new manufacturing techniques, and contract with consultants to advance the development of Liquidmetal alloys. The decrease was primarily due to decrease in laboratory and prototype supplies used by \$0.1 million and decrease in wages and related expenses by \$0.1 million.

*Impairment of Long Lived Assets.* Impairment of long lived assets increased to \$3,394, or 31% of revenue, for the nine months ended September 30, 2005 from \$0 for the nine months ended September 30, 2004. Impairment expense represents write-down of \$1,653 of raw materials considered to be long term inventory and \$1,741 of idle equipment. While we may use the excess raw materials beyond one year to fulfill future customer order, we have determined that our current capacity was not significant enough to warrant holding this inventory as a long term asset. Further, while we have actively marketed the idle equipment for ultimate sale since early 2004, we were unable to sell this equipment. In addition, while the equipment may be used internally to meet future capacity requirements, considering our current revenue, we do not anticipate utilizing this equipment internally in the near future. As such, we have reduced the carrying values of the excess raw material and idle equipment.

*Loss from Extinguishments of Debt.* Loss from extinguishments of debt decreased to \$1.2 million, or 11% of revenue, for the nine months ended September 30, 2005 from \$1.7 million, or 11% of revenue, for the nine months ended September 30, 2004. The \$1.2 million loss from extinguishments of debt was recognized from the exchange of our 6% Convertible Notes due 2006 in August 2005. The \$1.7 million loss from extinguishments of debt was recognized

during the three months ended September 30, 2004 from exchange of our 6% Senior Convertible Notes due March 2007 in August 2004.

*Other Expense.* Other expense decreased to \$0.1 million, or 1% of revenue, for the nine months ended September 30, 2005 from \$0.4 million, or 3% of revenue, for the nine months ended September 30, 2004. Other expense consists of change in value of warrants issued from the senior convertible debt funded in March 2004 and exchanged in August 2004, convertible debt funded in June 2005, and senior convertible debt funded in August 2005 primarily as a result of fluctuations in our stock price.

*Other Income.* Other income increased to \$1.3 million, or 12% of revenue, for the nine months ended September 30, 2005 from \$1.6 million, or 11% of revenue, for the nine months ended September 30, 2004.

During the nine months ended September 30, 2005, other income consisted of change in value of warrants issued from the senior convertible debt funded in March 2004 and exchanged in August 2004, convertible debt funded in June 2005, and senior convertible debt funded in August 2005 primarily as a result of fluctuations in our stock price. During the nine months ended September 30, 2004, other income consisted of \$1.3 million from change in value of warrants issued from our convertible debt as a result of fluctuations in our stock price, and \$0.3 million recognized from an agreement entered into with John Kang, our Chairman, President, and Chief Executive Officer from stock transactions during 2002.

*Interest Expense.* Interest expense was \$3.3 million, or 30% of revenue, for the nine months ended September 30, 2005 and was \$3.2 million, or 22% of revenue, for the nine months ended September 30, 2004. During each of the nine months ended September 30, 2005 and 2004, the interest expense was primarily due to the interest accrued on the Kookmin Bank loan funded on February 4, 2003, senior convertible debt funded on March 3, 2004 and exchanged in August 2004, convertible debt funded on June 13, 2005, and senior convertible debt funded on August 9, 2005, as well as amortization of debt issuance costs and discount on the convertible debt. As of September 30, 2005, \$0.1 million of interest expense was accrued from default interest rates applied to the senior convertible notes effective April 1, 2005 from non payment of quarterly scheduled interest payments and \$1.0 million of late registration penalty fee of our senior convertible debt was accrued as interest expense.

*Interest Income.* Interest income was \$14 thousand for the nine months ended September 30, 2005, and \$34 thousand for the nine months ended September 30, 2004 from interest earned on cash deposits.

***Comparison of the years ended December 31, 2004 and 2003***

*Revenue.* Revenue increased to \$17.4 million in the twelve months ended December 31, 2004 from \$13.7 million in the twelve months ended December 31, 2003. The increase was due to increases in revenue earned by our bulk Liquidmetal alloy and coatings segments in the twelve months ended December 31, 2004. This increase in revenue consisted of \$3.8 million from the sale and prototyping of parts manufactured from bulk Liquidmetal alloys, offset by a decrease of \$1.9 million from research and development services related primarily from reduced activity from defense and medical applications. Our coatings business contributed \$1.0 million to the increase in revenues as compared to the twelve months ended December 31, 2003 from increased demand for drill pipe coatings.

*Cost of Sales.* Cost of sales decreased to \$12.2 million, or 70% of revenue, during the twelve months ended December 31, 2004 from \$18.2 million, or 133% of revenue, in the twelve months ended December 31, 2003. This decrease was a result of the continued maturing of our manufacturing process and represents our efforts to manage costs and focus on our core business while continuing to build production pipeline and manufacturing infrastructure required to prepare for and support the anticipated growth of our bulk Liquidmetal alloy business. The cost of sales for the products sold by the coatings business segment is generally consistent from year to year because the Liquidmetal coatings products are produced by third parties and sold wholesale to various industries.

*Selling, General, and Administrative Expenses.* Selling, general, and administrative expenses decreased to \$11.6 million, or 66% of revenue, in the twelve months ended December 31, 2004 from \$17.7 million, or 130% of revenue, in the twelve months ended December 31, 2003. This decrease was primarily a result of decrease in wages and related expense by \$5.0 million, decreases in travel and communication expenses by \$0.8 million, decreases in rent by \$0.8 million, decrease in relocation expenses by \$0.7 million, offset by an increase in professional fees, consultant fees, and contract services by \$0.8 million, and an increase in insurance costs by \$0.4 million. These and other decreases in selling, general and administrative expenses represent our efforts to manage costs and focus on our core business while continuing to build our corporate infrastructure required to prepare for and support the anticipated growth of our bulk Liquidmetal alloy business.

*Research and Development Expenses.* Research and development expenses decreased to \$1.5 million, or 8% of revenue, in the twelve months ended December 31, 2004 from \$8.8 million, or 64% of revenue, in the twelve months ended December 31, 2003. The decrease was primarily a result of decreases in

salaries, wages and the related expenses by \$3.0 million, decrease in laboratory and prototyping expenses by \$2.0 million, decrease in depreciation expense by \$0.7 million, decrease in professional fees, consultant fees, and contract services by \$0.6, decrease in research grants by \$0.3 million, and decrease in travel related expenses by \$0.2 million. The decreases were a result of our company focusing primarily on our core business associated with our bulk Liquidmetal alloy business while managing our costs. We continue to perform research and development efforts on new Liquidmetal alloys and related processing capabilities, develop new manufacturing techniques, and contract with consultants and provide research grants to various institutions to advance the development of Liquidmetal alloys.

*Impairment of Goodwill.* Impairment of goodwill was \$184, or 1% of revenue, in the twelve months ended December 31, 2003. Impairment of goodwill represents the write-down of the goodwill balance of Dongyang Yudoro ( Dongyang ), our 51% owned subsidiary in South Korea. During 2003, Dongyang experienced net losses as a result of a continuing economic downturn in the market for its machinery products. These events along with Dongyang's operating, and cash flow losses, and uncertainty surrounding its future cash flows, led us to evaluate our investment for recoverability as of December 31, 2003. As a result, we determined that the carrying value of our investment in Dongyang exceeded its fair value as of December 31, 2003 in the amount of \$184. In March 2004, we sold our 51% investment in Dongyang to the 49% minority stockholder. There was no impairment charge to goodwill in the twelve months ended December 31, 2004.

*Impairment of Long Lived Assets.* Impairment of long lived assets was \$2.7 million, or 20% of revenue, in the twelve months ended December 31, 2003. Impairment expense represents a write-down of the building of our manufacturing facility in South Korea. Due to the decreased production and usage of our Pyongtaek manufacturing operation, we decided to obtain independent appraisals as to the fair value of this building. Accordingly, the fair value of the building as determined by the average of the two independent appraisals was less than the carrying value of the building as of December 31, 2003. There was no impairment charge to long lived assets in the twelve months ended December 31, 2004.

*Loss from Extinguishment of Debt.* Loss from extinguishment of debt was \$1.7 million, or 10% of revenue, during the twelve months ended December 31, 2004 due to the extinguishment of our March Notes as it relates to the exchange in August 2004. There was no such loss recorded during twelve months ended December 31, 2003.

*Change in value of warrants, net.* Change in value of warrants was a net gain of \$0.7 million, or 4% of revenue, during the twelve months ended December 31, 2004 from the change in valuation of warrant payable issued related to the senior convertible debt funded in March 2004, which was exchanged in August 2004. There were no such amounts recorded for the twelve months ended December 31, 2003.

*Other Income.* Other income was \$0.3 million, or 2% of revenue, during the twelve months ended December 31, 2004 from certain stock transactions with John Kang, our Chairman, President, and Chief Executive Officer during 2002. There were no amounts recorded as other income for the twelve months ended December 31, 2003.

*Interest Expense.* Interest expense was \$3.6 million, or 21% of revenue, in the twelve months ended December 31, 2004 and was \$0.4 million, or 3% of revenue, in the twelve months ended December 31, 2003. During the twelve months ended December 31, 2004, the interest expense was primarily due to the interest accrued, amortization of debt discount and deferred issuance costs on new senior convertible debt originally sold on March 3, 2004 and exchanged in August 2004, and interest accrued on Kookmin Bank loan funded on February 4, 2003. During the twelve months ended December 31, 2003, interest expense was primarily due to interest accrued on the Kookmin Bank loan to our South Korean subsidiary made on February 4, 2003.

*Interest Income.* Interest income was \$37 for the twelve months ended December 31, 2004 for interest earned on certificate of deposits. Interest income was \$0.3 million or 2% of revenue for the twelve months ended December 31, 2003 for interest earned on short-term, investment grade, interest-bearing securities.



*Gain from Sale of Investment.* In April 2003 we sold our remaining shares of Growell Metal Co., Ltd. that were purchased in July 2002. We recognized a \$1.2 million gain on the sale of these shares during the twelve months ended December 31, 2003. There were no such gains in the twelve months ended December 31, 2004.

*Comparison of the years ended December 31, 2003 and 2002*

*Revenue.* Revenue increased to \$13.7 million in the twelve months ended December 31, 2003 from \$9.1 million in the twelve months ended December 31, 2002. The increase was due to increases in revenue earned by our bulk Liquidmetal alloy segment in the twelve months ended December 31, 2003. This increase in our bulk Liquidmetal alloy segment revenue consisted of a revenue increase of \$1.8 million from the sale of metal processing equipment in the US, an increase of \$0.1 million from the sale and prototyping of parts manufactured from bulk Liquidmetal alloys, and an increase of \$2.2 million from research and development services related primarily to defense and medical applications. The increase in revenue earned by our bulk Liquidmetal alloy segment was offset by a decrease of \$1.6 million in the revenue earned by our coatings business as compared to the twelve months ended December 31, 2002 due to a slowdown in demand for drill pipe coatings.

*Cost of Sales.* Cost of sales increased to \$18.2 million, or 133% of revenue, during the twelve months ended December 31, 2003 from \$5.7 million, or 62% of revenue, in the twelve months ended December 31, 2002. The cost of sales as a percentage of revenue increased due to three primary factors: first, a higher percentage of plant operating costs allocated to manufacturing in the current period, as opposed to the same twelve month period in 2002 when our manufacturing facility was in the final stages of construction and significant in-plant spending was directed to research and development to support the ramp-up of manufacturing operations; second, the impact of unprofitable electronic casing components and prototypes moving through our manufacturing mix; and third, the impact of the write-down of excess raw material in the amount of \$1.0 million and the write-down of raw material and equipment inventory in the amount of \$2.8 million in connection with a settlement of a dispute with Growell which was finalized in January 2004.

Although the cost to manufacture parts from our bulk Liquidmetal alloys is variable and differs based on the unique design of each product, we expect gross margin to improve as we limit production and prototyping to select products that require the high-performance qualities of Liquidmetal alloys and can be priced accordingly. Furthermore, we believe that strategic licensing agreements and other relationships to advance the development of our technology and processes that we will pursue could also contribute to improved gross margins. The cost of sales for the products sold by the coatings business is expected to remain generally consistent because Liquidmetal coatings products are produced by third parties and sold wholesale to various industries.

*Selling, General, and Administrative Expenses.* Selling, general, and administrative expenses increased to \$17.7 million, or 130% of revenue, in the twelve months ended December 31, 2003 from \$13.1 million, or 143% of revenue, in the twelve months ended December 31, 2002. This increase was primarily a result of costs incurred for closing our Tampa, Florida offices, which included: an increase in severance costs of \$2.2 million for releasing a substantial number of these employees as well as our expense and accrual of \$0.8 million for terminating our office lease, due to the determination that we will be unable to sublease this space over the remaining term; an increase in professional

fees, consultant fees, and contract services of \$0.8 million; an increase in insurance expense of \$0.5 million; an increase in data communications expense of \$0.2 million; an increase in depreciation expense of \$0.3 million; an increase of warranty expense of \$0.5 million; and a \$0.3 million increase in expenses associated with the disposition of certain assets in the twelve months ended December 31, 2003. The increase in selling, general and administrative expenses are associated with the aforementioned cost reduction measures, including the consolidation of offices, the staff reductions, and a corresponding shift in strategy for the continued development of our bulk Liquidmetal alloy business. This was partially offset by a decrease in advertising expense of \$0.1 million; a decrease in bad debt expense of \$0.9 million; and a \$0.7 million decrease in stock compensation expense.

*Research and Development Expenses.* Research and development expenses decreased to \$8.8 million, or 64% of revenue, in the twelve months ended December 31, 2003 from \$11.8 million, or 129% of revenue, in the twelve months ended December 31, 2002. This decrease was partially a result of the maturing of our manufacturing process and related processing capabilities, the consolidation of our facilities into our California

Technology Center, and the discontinuation of certain prototyping and developmental activities that occurred extensively while we were identifying our current technology capabilities and limitations. These decreases were partially offset by increases in providing research grants to various institutions to advance the development of Liquidmetal alloys. In the category of research and development expenses: travel decreased by \$0.2 million; professional fees, consultant fees, and contract services decreased by \$1.6 million; laboratory and prototyping expenses decreased by \$0.9 million; and stock compensation expense decreased by \$1.4 million. These expenses were partially offset by increases in depreciation of research equipment of \$0.4 million, increased research grants to educational institutions of \$0.1 million, and increase to salaries, wages and severance net of \$0.5 million.

*Impairment of Goodwill.* Impairment of goodwill represents the write-down of the goodwill balance of Dongyang Yudoro ( Dongyang ), our 51% owned subsidiary in South Korea. During 2003, Dongyang experienced net losses as a result of a continuing economic downturn in the market for its machinery products. These events along with Dongyang's operating, and cash flow losses, and uncertainty surrounding its future cash flows, led us to evaluate our investment for recoverability as of December 31, 2003. As a result, we determined that the carrying value of our investment in Dongyang exceeded its fair value as of December 31, 2003 in the amount of \$184. In March 2004, we sold our 51% investment in Dongyang to the 49% minority stockholder.

*Impairment of Long Lived Assets.* Impairment expense represents a write-down of the building of our manufacturing facility in South Korea. Due to the decreased production and usage of our Pyongtaek manufacturing operation, we decided to obtain independent appraisals as to the fair value of this building. Accordingly, the fair value of the building as determined by the average of the two independent appraisal was less than the carrying value of the building as of December 31, 2003.

*Interest Expense.* Interest expense was \$0.4 million, or 3% of revenue, in the twelve months ended December 31, 2003 and was \$1.1 million, or 12% of revenue, in the twelve months ended December 31, 2002. During the twelve months ended December 31, 2003, interest expense was primarily due to interest accrued on the Kookmin Bank loan to our South Korean subsidiary made on February 4, 2003. During the twelve months ended December 31, 2002, interest expense was primarily due to the amortization of the fair value of warrants granted in connection with subordinated promissory notes we issued in February 2001.

*Interest Income.* Interest income was \$0.3 million, or 2% of revenue, in the twelve months ended December 31, 2003 due to interest earned on short-term, investment grade, interest-bearing securities. During the twelve months ended December 31, 2002, interest income was \$0.5 million, or 6% of revenue, which was interest earned from the proceeds of our May 22, 2002 initial public offering.

*Gain from Sale of Investment.* In April 2003 we sold our remaining shares of Growell Metal Co., Ltd. that were purchased in July 2002. We recognized a \$1.2 million gain on the sale of these shares.

#### *Liquidity and Capital Resources*

Our cash used for operating activities was \$7.0 million for the nine months ended September 30, 2005 and \$5.5 million, which includes cash used in our discontinued equipment manufacturing business of \$0.8 million, for the nine months ended September 30, 2004. Our working deficit decreased from \$(10.2) million at December 31, 2004 to \$(9.7) million at September 30, 2005. The Company's working deficit decrease of \$0.5 million was primarily attributable to increase in cash and cash equivalents of \$0.2 million, increase in trade accounts receivable of \$0.5 million, increase in prepaid and other current assets of \$0.4 million, decrease in current portion of long term debt of \$4.8 million, decrease in current portion of other liabilities of \$0.3 million, offset by decrease in restricted cash of \$0.8 million, increase in accounts payable and accrued liability of \$0.7 million, increase in short-term debt of \$0.2 million, increase in warrant liabilities of \$4.0 million.

Our cash used in investing activities was \$0.2 million for the nine months ended September 30, 2005 for the acquisition of property and equipment and investments in patents and trademarks.

Our cash provided by financing activities was \$7.0 million for the nine months ended September 30, 2005, which consists of \$0.8 million in proceeds from restricted cash and \$13.1 million in proceeds from

convertible debt funded in June 2005 and senior convertible debt funded in August 2005, \$0.2 million in proceeds from borrowings from our short term debt executed in March 2005, \$2.9 million in proceeds from factoring agreement executed in April 2005, offset by \$10.0 million on repayment of borrowings.

We anticipate that our capital expenditures will be approximately less than \$0.5 million for the full year 2005 for the acquisition of furniture, fixtures, and other business equipment. This amount is subject to change, however, depending upon the nature and the amount of the product orders that we actually receive from customers.

Our capital requirements during the next twelve months will depend on numerous factors, including the success of existing products either in manufacturing or development, the development of new applications for Liquidmetal alloys, the resources we devote to develop and support our Liquidmetal alloy products, the success of pursuing strategic licensing and funded product development relationships with external partners, and the cost of successful implementation of Section 404 of the Sarbanes-Oxley Act of 2002. During the next twelve months, based on our current business plan, we expect to have sufficient resources to continue to devote limited capital to our research and development activities, to further develop and strengthen our manufacturing technology, and to provide for working capital and other general corporate purposes. However, based on our historical operating results and the continued development of our manufacturing capabilities and alloy compositions, there exists the possibility that these resources will not be adequate to operate at the proposed business plan levels. These expenses and capital expenditures could consume a material amount of our cash resources, but the amount of these requirements will depend on the nature and amount of orders we receive for the purchase of our bulk Liquidmetal alloy products.

Our business is based on commercializing an entirely new and unique technology, and our current business plan contains a variety of assumptions and expectations that are subject to uncertainty, including assumptions and expectations about order flow, unit volumes, manufacturing efficiencies, product cost and pricing, continuing technology improvements, customer adoption practices, strategic licensing relationships and other relevant matters. These assumptions take into account recent significant cost reductions, as well as recent improvements to our manufacturing processes. We have experienced losses from continuing operations during the last two fiscal years and have an accumulated deficit of \$139.1 million as of September 30, 2005. At September 30, 2005, our principal source of liquidity was \$0.9 million of cash and cash equivalents and trade accounts receivables of \$2.2 million. Such conditions raise substantial doubt that our company will be able to continue as a going concern for a reasonable period of time without receiving additional funding. These operating results occurred while we were developing and attempting to commercialize and manufacture products from an entirely new and unique technology. This business plan required significant spending related to start-up costs and capital expenditures. These factors have placed a significant strain on our financial resources. The ultimate success of our company depends on our ability to continue to reduce operating costs, generate higher revenue, achieve positive cash flow from continuing operations and achieve profitability.

Our future success depends on our ability to continue reducing operating costs and ultimately to generate higher revenue and attain profitability. We cannot be certain that additional capital, whether through selling additional debt or equity securities or obtaining a line of credit or other loan, will be available to us or, if available, will be on terms acceptable to us. If we issue additional securities to raise funds, these securities may have rights, preferences, or privileges senior to those of our common stock, and our current stockholders may experience dilution.

#### **Use of Proceeds**



## Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form S-1

Pursuant to our Registration Statement on Form S-1 (Registration No. 333-73716), as amended, initially filed with the Securities and Exchange Commission on November 20, 2001 and declared effective May 21, 2002, we closed an initial public offering of 5,000,000 shares of common stock on May 28, 2002, plus an additional 229,000 shares on June 10, 2002 pursuant to an over allotment option, at a price of \$15.00 per share (which sale is referred to herein as the Offering ). The Offering generated aggregate cash proceeds during the second quarter 2002 of \$78.4 million. The net proceeds were \$70.7 million after deducting underwriting commissions of \$5.5 million and other transaction fees of \$2.2 million. The managing underwriters for the Offering were Merrill Lynch & Co., UBS Warburg, and Robert W. Baird & Co.

As of December 31, 2003, we used \$70.7 million of net proceeds from the Offering. In 2002, we used approximately \$7.8 million of the net proceeds from the Offering to repay all outstanding promissory notes and accrued interest, \$11.1 million to fund the construction of our manufacturing facility in South Korea, \$14.3 million to purchase equipment used to manufacture Liquidmetal parts, \$0.4 million to purchase assets related to production and sale of equipment used in the production process of Liquidmetal alloy products, and \$0.3 million to purchase the 51% interest in our majority owned Dongyang subsidiary. During the third quarter of 2002, we used \$2.0 million to invest in the common stock of Growell Metal, which supplied a portion of the Liquidmetal alloy ingots used in our manufacturing operations in Korea. We have since sold such stock, realizing a gain on the sale. We used the remaining proceeds of \$32.7 million for working capital in 2002 and 2003, excluding \$2.1 million paid to Paul Azinger in 2002 and 2003 for amounts due under the terms of his terminated endorsement agreement with our discontinued retail golf operations.

#### **Private Placements**





## Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form S-1

On March 3, 2004, we sold \$9.9 million of 6.0% senior convertible notes due 2007 (the March Notes ) to investor groups in a transaction led by Michigan Venture Capital Co., Ltd, a South Korea-based institutional investment firm, and IndiGo Ventures LLC, a New York-based investment firm that served as a financial advisor to our company for the transaction. The notes were convertible at any time into our common stock at a price of \$3.00 per share. Investors in the private placement received warrants to purchase an aggregate amount of up to approximately 1.2 million shares of common stock, exercisable at \$3.00 per share for varying periods but no later than 100 days following the effectiveness of a registration statement covering the resale of shares issuable upon exercise of the warrants. In addition, the investors had the right to call for repayment of the notes prior to maturity at any time after the second anniversary of the closing of the transaction.

On August 19, 2004, we completed a private exchange offer for our March Notes. Under terms of the exchange offer, approximately \$5.5 million in aggregate principal amount of the March Notes were exchanged for an aggregate of (i) \$2.75 million of 6% Senior Secured Notes Due 2007 (the July 2007 Notes ) and (ii) \$2.75 million of 10% Senior Secured Notes Due 2005 (the July 2005 Notes ), collectively referred to as Exchange Notes . In addition, we redeemed approximately \$4.5 million of the March Notes in cash. The Exchange Notes were collateralized by certain patents owned by our company and a second priority mortgage interest in plant facilities and certain equipment at our plant in South Korea. The July 2005 Notes had a maturity date of July 29, 2005, and a conversion price of \$2.00 per share (compared to a conversion price of \$3.00 per share under the March Notes). The July 2007 Notes have a maturity date of July 29, 2007, and a conversion price of \$1.00 per share. Further, the exchange notes are convertible into Common Stock, at the option of our company, if at any time after the issuance of the notes, the closing per share price of the Common Stock exceeded \$4.00 (as adjusted for stock splits, reverse splits, stock dividends, and recapitalizations) for 30 consecutive trading days, and further provided that there has been effective registration during such period. Holders of the July 2007 Notes also have the right to call for repayment of the July 2007 Notes prior to maturity at any time after the second anniversary of the completion of the exchange offer. A total of 563,151 warrants to purchase our common stock at an exercise price of \$3.00 per share all of which were previously issued in connection with the purchase of the March Notes were amended to provide for an extended expiration date of March 1, 2006. The warrant exercise price is subject to price adjustment for anti-dilution purposes. As of October 1, 2005, the warrant price was determined to be exercisable at \$2.73.

On June 13, 2005, we completed a private placement (the June 2005 Private Placement ) of 10% Convertible Unsecured Notes Due June 13, 2006 in the aggregate principal amount of \$3,250 (the June 2006 Notes ), together with warrants to purchase up to an aggregate of 893,750 shares of our company's common stock (the Warrants ). The June 2006 Notes were unsecured and were due on the earlier of June 13, 2006 or the consummation of a follow-on equity or debt offering or restructuring transaction pursuant to which our company receives gross proceeds of at least \$4,000. Prior to maturity, the June 2006 Notes were interest-only, with interest payments due quarterly, at the rate of 10% per year. If, within 120 days following the issue date of the June 2006 Notes, our company either failed to redeem the notes for the principal amount and accrued interest thereon or failed to close a Qualified Financing, then the June 2006 Notes would have been convertible at a conversion price equal to seventy five percent (75%) of the closing price of our company's common stock on the first trading day immediately preceding the conversion date. A Qualified Financing was defined in the June 2006 Notes as any

debt or equity financing of our company resulting in aggregate gross proceeds to our company of at least \$5,000 and in which the holders of at least sixty percent (60%) of the aggregate principal amount of our company's Long-Term Notes either (i) agree that the equity or debt securities to be issued in such financing shall be pari passu in order of payment to the July 2007 Notes held by them or (ii) exchange their July 2007 Notes for new securities in the financing transaction. We successfully completed a Qualified Financing on August 9, 2005, and the June 2006 Notes never became convertible.

On August 9, 2005, we completed a private placement (the August 2005 Private Placement) of \$9,878 in principal amount of new 7% Convertible Secured Promissory Notes due August 2007 (the Senior Notes). The issuance consisted of \$5,000 cash, exchange of \$1,284 in principal amount of the July 2005 Notes, the exchange of \$2,996 in principal amount of the June 2006 Notes, satisfaction of accrued interest and late registration fees in the amount of \$589 on the July 2005 Notes, and satisfaction of accrued interest of \$9 on the previously issued June 2006 Notes. The Senior Notes were issued pursuant to a Securities Purchase Agreement dated effective as of August 2, 2005 among our company, the purchasers of the Senior Notes, and the holders of previously issued July 2005 Notes and June 2006 Notes. Interest payments on the Senior Notes are due quarterly, and failure to make timely interest payments will result in increase in interest rates to 14% per annum on the Senior Notes (Default Rates). As of September 30, 2005, we have made timely interest payments. The Senior Notes are convertible into shares of our common stock at \$2.00 per share Pursuant to an Amended and Restated Security Agreement. The Senior Notes are secured by substantially all of our assets and rank senior to all other obligations of our company, other than our loan with Kookmin Bank of South Korea (or any refinancing of such loan), the July 2007 Notes, purchase-money asset financing, trade creditors in the ordinary course of business, and any inventory or receivables-based credit facility that we may obtain in the future, provided that the amount of the credit facility does not exceed 50% of eligible inventory and 80% of eligible receivables. The Senior Notes will automatically convert into shares of our common stock if the common stock has an average closing price of more than \$5.00 per share during 30 consecutive trading days. We also issued warrants to the purchasers of the Senior Notes and placement agents giving them the right to purchase up to 2,469,470 and 414,495 shares of our common stock, respectively, with an exercise price of \$2.00 per share. The warrants will expire on August 2, 2010.

In connection with the August 2005 Private Placement, we entered into an amended and restated registration rights agreement with the holders of the July 2007 Notes, the holders of the August 2007 Notes, and the holders of the above-described outstanding warrants. This amended and restated registration rights agreement replaced all other registration rights agreements previously entered into by us in connection with the private sale by us of convertible notes and warrants. Under the amended and restated registration rights agreement, we are required to file a resale registration statement for the shares underlying all of our outstanding convertible notes and warrants, as described above, by October 31, 2005, to enable the resale of such shares by the selling stockholders on a delayed or continuous basis under Rule 415 of the Securities Act. We are then required to cause such registration statement to become effective within 60 days after we receive the first written comments on the registration statement from the SEC, or if the SEC notifies us that it will not review the registration statement, within five days after such notification. We will be subject to certain monetary penalties, as set forth in the registration rights agreement, if the registration statement is not filed or does not become effective on a timely basis. Specifically, if we do not file the registration statement on a timely basis, we will be obligated to pay a late filing fee to the selling stockholders in the amount of 3% of the warrant exercise price on each of the warrants held by them plus 3% of the principal amount of the outstanding notes held by them. This fee will be payable for each period of 30 business days that the filing of the registration statement is made past the required filing date, and the payments will be due 10 business days following the end of each 30-day period. If the registration statement has not been declared effective by the required effective date, we will be obligated to pay a monthly late registration fee to the selling stockholders in the amount of 2% of the aggregate warrant exercise prices and aggregate note principal amounts for the first 30 business days after the required effective date, and 1% for each 30-business day period thereafter until the registration statement is declared effective. Notwithstanding the foregoing, the late filing fees and late registration fees will not exceed 18% of the aggregate warrant exercise prices and aggregate note principal amounts.

On December 6, 2005, we received a letter from a representative of the holders of the August 2007 Notes demanding the payment of a late filing fee by us for the period following October 31, 2005, but under the terms of the amended and restated registration rights agreement, we do not believe that we are obligated to pay any late filing fees unless and until we fail to file the registration statement by December 13, 2005, which is the last day

of the first 30-business day period following October 31, 2005. The letter also stated that the letter was serving as a notice of default under the Senior Notes as a result of our failure to file a registration statement by October 31, 2005, although under the terms of the Senior Notes, we have thirty days after delivery of the letter in which to cure such default, and we intend to cure the default by filing the registration statement within such 30-day period.

**Off Balance Sheet Arrangements**

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has (1) made guarantees, (2) a retained or a contingent interest in transferred assets, (3) an obligation under derivative instruments classified as equity, or (4) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the company, or that engages in leasing, hedging, or research and development arrangements with the company.

We have made no arrangements of the types described in any of the categories that may have a material current or future effect on our financial condition, liquidity or results of operations.

**Contractual Obligations**

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The following table summarizes our company's obligations and commitments as of September 30, 2005:

Contractual Obligations (1)	Total	Payments Due by Period (in thousands)			
		> 1 year	1-3 Years	2-5 Years	After 5 years
Long-term debt (2)	\$ 15,180	\$ 1,204	\$ 13,976	\$	\$
Short-term debt (3)	237	237			
Capital lease obligation (3)	108	33	75		
Operating leases and rents	1,062	120	763	178	1
Growell settlement payable (4)	3,234	3,234			
Consulting Services payable	68	68			
Dongyang payable	11	11			
	\$ 19,900	\$ 4,907	\$ 14,814	\$ 178	\$ 1

(1) Contractual cash obligations include Long-Term Debt comprised of \$2,392 of Senior Convertible Notes issued in 2004, \$9,878 of Convertible Notes issued in 2005, and \$2,910 of Kookmin Notes, Short-Term Debt comprised of \$237 advances received under factoring, loan, and security agreement, and future minimum lease payments under capital and operating leases, liabilities incurred from settlement with a former customer (Growell) and divestiture of our equipment manufacturing business, and purchase commitments from a consultant.

(2) Does not include interest payments of \$1,869, un-amortized discounts for beneficial conversion feature and warrants, deferred issuance costs of \$7,507 of our convertible notes.

(3) Does not include minimum interest and fee payments of \$30.

(4) Includes imputed interest of \$4.

(5) In January 2005 Growell was acquired by a third party, and we **are currently in negotiations to settle this balance with the third party.**

**Critical Accounting Policies and Estimates**





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The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions.

We believe that the following accounting policies are the most critical to our consolidated financial statements since these policies require significant judgment or involve complex estimates that are important to the portrayal of our financial condition and operating results:

Our earnings and cash flows are subject to fluctuations due to changes in non-U.S. currency exchange rates. We are exposed to non-U.S. exchange rate fluctuations as the financial results of non-U.S. subsidiaries, Korea and China, are translated into U.S. dollars. As exchange rates vary, those results, when translated, may vary from expectations and adversely impact overall expected profitability. The cumulative translation effects for subsidiaries using functional currencies other than the U.S. dollar are included in accumulated foreign exchange translation in stockholders' equity. Movements in non-U.S. currency exchange rates may affect our competitive position, as exchange rate changes may affect business practices and/or pricing strategies of non-U.S. based competitors.

We record an accrual for potential product warranty costs. Due to the lack of historical information for warranty expense related to bulk alloy products, management estimates product warranties as a percentage of bulk alloy product sales earned during the period. In the event in future periods the actual product warranty costs consistently exceed the estimate for product warranty costs, an adjustment would be made and income would decrease in the period of such determination. Likewise, in the event we determine that actual product warranty costs are consistently lower than the estimate for product warranty costs, an adjustment would be made and income would increase in the period of such determination.

We record an allowance for doubtful accounts as a contra-asset to our trade receivables for estimated uncollectible accounts. Management estimates the amount of potentially uncollectible accounts by reviewing significantly past due customer balances relative to historical information available for those customers. In the event, in future periods, actual uncollectible accounts exceed the estimate for uncollectible accounts, an adjustment would be made and income would decrease in the period of such determination. Likewise, in the event, in future periods, actual uncollectible accounts are lower than the estimate for uncollectible accounts, an adjustment would be made and income would increase in the period of such determination.

We value inventories at lower of cost or net realizable value. Management has determined net realizable value to be equal to the selling price of the products to be produced and sold less the cost of disposal. In the event, in future periods, the actual selling prices exceed the estimate for selling prices less cost to sell, an adjustment would be made and income would increase in the period of such determination. Likewise, in the event, in future periods, actual selling prices are lower than the estimate for selling prices, an adjustment would be made and income would decrease in the period of such determination.



We value our assets at lower of cost or fair market value. Management has determined fair market to be equal to the selling price of the assets to be sold less the cost of disposal. In the event, in future periods, actual selling prices are lower than the estimate for selling prices, an adjustment would be made and income would decrease in the period of such determination.

We record valuation allowances to reduce the deferred tax assets to the amounts estimated to be realized. While we consider taxable income in assessing the need for a valuation allowance, in the event we determine we would be able to realize our deferred tax assets in the future in excess of the net recorded amount, an adjustment would be made and income increased in the period of such determination. Likewise, in the event we determine we would not be able to realize all or part of our deferred tax assets in the future, an adjustment would be made and charged to income in the period of such determination.

#### **Compliance with Section 404 of the Sarbanes-Oxley Act of 2002**

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, or SOX, the SEC has adopted rules requiring public companies to include a report of management on the company's internal controls over financial reporting in their annual reports on Form 10-K. In addition, the public accounting firm auditing a public company's financial statements must attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting. Although these requirements were first applicable to our annual report on Form 10-K for our fiscal year ending December 31, 2004, we were unable to comply with these requirements for such fiscal year. As disclosed in our amended Form 10-K filed with the SEC on May 10, 2005, the time and resources necessary to complete the restatement of prior periods' financial statements delayed our ability to complete the internal documentation, assessment and evaluation of internal control over financial reporting, all of which are required to be undertaken to comply with Section 404 of SOX. This delay prevented our independent auditor from being able to satisfactorily complete a timely audit of our internal control over financial reporting as of December 31, 2004.

Due to these delays, we and our independent auditor determined that it would not be possible to complete the management's assessment and auditor's audit of our internal controls over financial reporting as of December 31, 2004, and accordingly our independent auditor has issued a disclaimer of opinion with respect to our internal control over financial reporting as of December 31, 2004, and such disclaimer was filed with our amended Form 10-K filed on May 10, 2005. We have been advised by the SEC that the filing of this disclaimer does not comply with the SEC's rules and regulations under Section 404, and the SEC has further advised us that this noncompliance has resulted in us being in violation of Section 13(a) under the Securities Exchange Act of 1934. Section 13(a) establishes the general requirement that public companies must file with the SEC, in accordance with such rules and regulations as the SEC may prescribe, such information, documents, and reports as the SEC may from time to time require for the protection of investors, including Form 10-Ks and 10-Qs.

In general, the SEC has broad authority under the Securities Exchange Act of 1934 to institute investigations, to seek injunctions, to seek monetary penalties, and to otherwise pursue enforcement actions for violations of Section 13(a), including a failure to file a Form 10-K or for the omission of necessary statements in a Form 10-K. Therefore, a violation under Section 404 of SOX or Section 13(a) of the Securities Exchange Act of 1934 could potentially subject an issuer to these same investigations and penalties. Section 404 of SOX is a relatively new legal requirement, and there is very little precedent establishing the consequences or appropriate response to a public company's failure to comply with Section 404. Accordingly, although we have discussed our Section 404 noncompliance with the SEC, we cannot predict what action, if any, the SEC may take against our company as a result of a failure to be compliant with our obligations under Section 404 of SOX or Section 13(a) of the Securities Exchange Act of 1934.

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In addition to the foregoing, although our common stock was admitted to the OTC Bulletin Board for quotation on June 15, 2005, the SEC has further advised us that, as a result of our noncompliance with Section

404 for our 2005 fiscal year, it may not have been appropriate for the OTC Bulletin Board to admit our common stock for quotation on June 15, 2005. Consequently, there is no assurance that our common stock will remain eligible for quotation on the OTC Bulletin Board.

With respect to compliance with Section 404 of SOX for 2005, while we have devoted as much financial and internal resources during 2005 toward compliance as we deemed possible with our limited resources, we believe that there is significant work remaining to be done in a limited amount of time in order to be compliant as of December 31, 2005. In addition, effective December 1, 2005, our audit firm, Stonefield Josephson, Inc., resigned as our auditor, and we have not yet found a replacement auditor. Thus, we believe that we will likely not be able to complete our assessment of internal controls in accordance with Section 404 requirements as of December 31, 2005.

#### **Recent Accounting Pronouncements**



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In June 2005, the Emerging Issues Task Force ( EITF ) reached a consensus on Issue No. 05-2 The Meaning of Conventional Convertible Debt Instrument in EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock. Issuers of convertible debt are required by Statement 133 to evaluate whether it is necessary to separate the embedded conversion feature from the debt contract and account for the conversion feature as if it were a separate derivative instrument. If the issuer determines that the embedded conversion feature would be classified in equity if it were a freestanding instrument, the conversion feature is not separated from the debt contract. EITF 00-19's criteria must be applied to determine whether a conversion feature qualifies for equity classification, but it exempts a conversion feature embedded in a conventional convertible debt instrument from some of the criteria. EITF 05-2 requires convertible instruments that may be settled in a combination of cash or shares, e.g., those referred to as Instrument C in EITF 90-19, and instruments that may be convertible into a variable number of shares are not conventional. As a result, nonconventional instruments would need to satisfy all requirements of EITF 00-19 to support a conclusion that the conversion feature does not require accounting separate from that for the debt contract. The adoption of this Issue did not have an impact on the Company's financial statements.

In June 2005, the EITF reached a consensus on Issue 05-6, Determining the Amortization Period for Leasehold Improvements, which requires that leasehold improvements acquired in a business combination or purchased subsequent to the inception of a lease be amortized over the lesser of the useful life of the assets or a term that includes renewals that are reasonably assured at the date of the business combination or purchase. EITF 05-6 is effective for periods beginning after June 29, 2005. Earlier application is permitted in periods for which financial statements have not been issued. The adoption of this Issue did not have an impact on the Company's financial statements.

In September 2005, the EITF reached a consensus on Issue 05-7 Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues, which requires that a change in the fair value of a conversion option brought about by modifying the debt agreement be included in analyzing in accordance with EITF 96-19 Debtor's Accounting for a Modification or Exchange of Debt Instruments whether a debt instrument is considered extinguished. Under EITF 96-19's requirements, an issuer who modifies a debt instrument must compare the present value of the original debt instrument's cash flows to the present value of the cash flows of the modified debt. If the present value of those cash flows varies by more than 10 percent, the modification is considered significant and extinguishments accounting is applied to the original debt. If the change in the present value of the cash flows is less than 10 percent, the debt is considered to be modified and is subject to EITF 96-19's modification accounting. EITF 05-7's Consensus requires that in applying the 10 percent test the change in the fair value of the conversion option be treated in the same manner as a current period cash flow. The Consensus also requires that, if a modification does not result in an extinguishment, the change in fair value of the conversion option be accounted for as an adjustment to interest expense over the remaining term of the debt. The issuer should not recognize a beneficial conversion feature or reassess an existing beneficial conversion feature upon modification of the conversion option of a debt instrument that does not result in an extinguishment. EITF 05-7 is effective for modifications of debt instruments beginning in the first interim or annual reporting period beginning after December 15, 2005. The Company does not expect the adoption of the EITF to have material impact on the Company's financial statements.

In September 2005, the EITF reached a consensus on Issue No. 05-8, *Income Tax Consequences of Issuing Convertible Debt with a Beneficial Conversion Feature*. Under EITF 05-8, the issuance of convertible debt with a beneficial conversion feature results in a temporary difference for purposes of applying Statement 109. The deferred taxes recognized for the temporary difference should be recorded as an adjustment to paid-in capital. EITF 98-5 *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios* and EITF 00-27 *Application of Issue No. 98-5 to Certain Convertible Instruments* require that the nondetachable conversion feature of a convertible debt security be accounted for separately if it is a beneficial conversion feature. A beneficial conversion feature is recognized and measured by allocating to additional paid-in capital a portion of the proceeds equal to the conversion feature's intrinsic value. A discount on the convertible debt is recognized for the amount that is allocated to additional paid-in capital. The debt discount is accreted from the date of issuance to the stated redemption date of the convertible instrument or through the earliest conversion date if the instrument does not have a stated redemption date. The U.S. Federal Income Tax Code includes the entire amount of proceeds received at issuance as the tax basis of the convertible debt security. The EITF 05-8 Consensus should be applied retrospectively to all instruments with a beneficial conversion feature accounted for under EITF 98-5 and EITF 00-27 for periods beginning after December 15, 2005. The Company does not expect the adoption of the EITF to have material impact on the Company's financial statements.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 replaces APB Opinion No. 20, *Accounting Changes*, and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements* and changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 31, 2005. We do not believe the adoption of SFAS No. 154 will have a material effect on its consolidated financial position, results of operations or cash flows.

On March 29, 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the Staff's interpretation of SFAS 123(R). This interpretation expresses the views of the staff regarding the interaction between SFAS 123(R) and certain SEC rules and regulations and provides the staff's views regarding the valuation of share-based payment arrangements for public companies. In particular, this SAB provides guidance related to share-based payment transactions with no employees, the transition from nonpublic to public entity status, valuation methods, the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS 123(R) in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS 123(R), the modification of employee share options prior to adoption of Statement 123(R) and disclosures in Management's Discussion and Analysis subsequent to adoption of SFAS 123(R). Our company will adopt SAB 107 in connection with its adoption of SFAS 123(R).

In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment*, which replaces SFAS No. 123. SFAS No. 123R requires public companies to recognize an expense for share-based payment arrangements including stock options and employee stock purchase plans. The statement eliminates a company's ability to account for share-based compensation transactions using APB 25, and generally requires instead that such transactions be accounted for using a fair value based method. SFAS No. 123R requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the date of grant, and to recognize the cost over the period during which the employee is required to provide service in exchange for the award. In April 2005, the SEC amended the compliance dates for SFAS 123(R), to allow companies to implement the standard at the beginning of their next fiscal year, instead of the next reporting period beginning after June 15, 2005. SFAS No. 123R is effective for our company in the quarter ending March 31, 2006. Upon adoption of SFAS 123R, companies are allowed to select one of three alternative transition methods, each of which has different financial reporting implications. We are currently evaluating the transition methods, valuation methodologies and other assumptions for employee stock options in light of SFAS No. 123R. Current estimates of option values using the Black-Scholes method may not be indicative of results from valuation methodologies



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ultimately implemented by our company upon adoption of SFAS No. 123R. Although we have not yet fully quantified the impact this standard will have on our financial statements, it is likely that the adoption of SFAS No. 123R will have a material impact on our company's financial position and results of operations. Stock-based Compensation under Consolidated Financial Statements provides the pro forma net income and earnings per share as if the Company had used a fair-value-based method similar to the methods required under SFAS 123(R) to measure the compensation expense for employee stock awards during the and nine months ended September 30, 2005 and 2004.

In December 2004 the Financial Accounting Standards Board issued two FASB Staff Positions: FSP FAS 109-1, *Application of FASB Statement 109 Accounting for Income Taxes to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004*, and FSP FAS 109-2 *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004*. Neither of these affected the Company as it does not participate in the related activities.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets*, an amendment of APB Opinion No. 29, *Accounting for Nonmonetary Transactions*. The amendments made by Statement 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. Previously, Opinion 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. Opinion 29 provided an exception to its basic measurement principle (fair value) for exchanges of similar productive assets. The Board believes that exception required that some nonmonetary exchanges, although commercially substantive, be recorded on a carryover basis. By focusing the exception on exchanges that lack commercial substance, the Board believes this Statement produces financial reporting that more faithfully represents the economics of the transactions. The Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The provisions of this Statement shall be applied prospectively. We have evaluated the impact of the adoption of SFAS 153, and do not believe the impact will be significant to our company's overall results of operations or financial position.

In November 2004, the FASB issued SFAS No. 151 *Inventory Costs*, an amendment of ARB No. 43, Chapter 4. The amendments made by Statement 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. We have evaluated the impact of the adoption of SFAS 151, and do not believe the impact will be significant to our company's overall results of operations or financial position.

In March 2004, the FASB approved the consensus reached on the Emerging Issues Task Force (EITF) Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. The objective of this Issue is to provide guidance for identifying impaired investments. EITF 03-1 also provides new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB issued a FASB Staff Position (FSP) EITF 03-1-1 that delays the effective date of the measurement and recognition guidance in EITF 03-1 until after further deliberations by the FASB. The disclosure requirements are effective only for annual periods ending after June 15, 2004. We have evaluated the impact of the adoption of the disclosure requirements of EITF 03-1 and do not believe the impact will be significant to our company's overall results of operations or financial position. Once the FASB reaches a final decision on the measurement and recognition provisions, we will evaluate the impact of the adoption of EITF 03-1.

In December 2003, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition*. SAB 104 supersedes SAB 101, *Revenue Recognition in Financial Statements*. SAB 104's primary purpose is to rescind accounting guidance contained in SAB 101 related



to multiple element revenue arrangements, superseded as a result of the issuance of EITF 00-21, Accounting for Revenue Arrangements with Multiple Deliverables. Additionally, SAB 104 rescinds the SEC's Revenue Recognition in Financial Statements Frequently Asked Questions and Answers (the FAQ) issued with SAB 101 that had been codified in SEC Topic 13, Revenue Recognition. Selected portions of the FAQ have been incorporated into SAB 104. While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104, which was effective upon issuance. The adoption of SAB 104 did not impact the consolidated financial statements.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA and the SEC did not or are not believed by management to have a material impact on our company's present or future consolidated financial statements.

**BUSINESS**



**Overview**



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We are a materials technology company that develops and commercializes products made from amorphous alloys. Our Liquidmetal® family of alloys consists of a variety of proprietary coatings, powders, bulk alloys, and composites that utilize the advantages offered by amorphous alloy technology. We develop, manufacture, and sell products and components from bulk amorphous alloys to customers in various industries, and we also partner with third-party licensees and distributors to develop and commercialize bulk Liquidmetal alloy products. We believe that our proprietary bulk alloys are the only commercially viable bulk amorphous alloys currently available in the marketplace. In addition to our bulk alloys, we market and sell a line of proprietary amorphous alloy-based industrial coatings under the Liquidmetal® Armacor™ Coatings brand.

Amorphous alloys are unique materials that are distinguished by their ability to retain a random atomic structure when they solidify, in contrast to the crystalline atomic structure that forms in other metals and alloys when they solidify. Liquidmetal alloys possess a combination of performance, processing, and potential cost advantages that we believe will make them preferable to other materials in a variety of applications. The amorphous atomic structure of our alloys enables them to overcome certain performance limitations caused by inherent weaknesses in crystalline atomic structures, thus facilitating performance and processing characteristics superior in many ways to those of their crystalline counterparts. For example, our zirconium-titanium Liquidmetal alloys are approximately 250% stronger than commonly used titanium alloys such as Ti-6Al-4V, but they also have some of the beneficial processing characteristics more commonly associated with plastics. We believe these advantages could result in Liquidmetal alloys supplanting high-performance alloys, such as titanium and stainless steel, and other incumbent materials in a wide variety of applications. Moreover, we believe these advantages could enable the introduction of entirely new products and applications that are not possible or commercially viable with other materials.

### **General Corporate Information**





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We were originally incorporated in California in 1987, and we reincorporated in Delaware in May 2003. Our principal executive offices are located at 25800 Commercentre Dr., Suite 100, Lake Forest, California 92630. Our telephone number at that address is (949) 206-8000. Previously, our principal executive offices were located in Tampa, Florida. In December 2003, we consolidated all corporate functions into our Lake Forest facility, which had previously served as our principal research and development office. Our Internet website address is [www.liquidmetal.com](http://www.liquidmetal.com) and all of our filings with the Securities and Exchange Commission are available free of charge on our website.

### **Subsidiaries and Other Locations**



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We currently own and operate a manufacturing facility in Pyongtaek, South Korea, which became operational in the third quarter of 2002. This Korean subsidiary handles our Bulk Liquidmetal alloy business which includes market opportunities to manufacture and sell casing components for electronic devices, medical devices, sporting goods, tooling, prototype sampling, defense applications and metal processing equipment. We also opened a post processing facility in Weihai, China in the third quarter of 2004. This Chinese subsidiary facilitates our bulk alloy manufacturing business by handling most of our post manufacturing processes. Lastly, we operate a distribution warehouse division in Conroe, Texas to handle our Liquidmetal alloy industrial coatings which are used primarily as protective coatings for industrial machinery and equipment, such as drill pipe used by the oil drilling industry and boiler tubes used by coal burning power plants.

### **Our Technology**



The performance, processing, and potential cost advantages of Liquidmetal alloys are a function of their unique atomic structure and their proprietary material composition.

### *Unique Atomic Structure*

The atomic structure of Liquidmetal alloys is the fundamental feature that differentiates them from other alloys and metals. In the molten state, the atomic particles of all alloys and metals have an amorphous atomic structure, which means that the atomic particles appear in a completely random structure with no discernible patterns. However, when non-amorphous alloys and metals are cooled to a solid state, their atoms bond together in a repeating pattern of regular and predictable shapes, or crystalline grains. This process is analogous to the way ice forms when water freezes and crystallizes. In non-amorphous metals and alloys, the individual crystalline grains contain naturally occurring structural defects that limit the potential strength and performance characteristics of the material. These defects, known as dislocations, consist of discontinuities or inconsistencies in the patterned atomic structure of each grain. Unlike other alloys and metals, bulk Liquidmetal alloys can retain their amorphous atomic structure throughout the solidification process and therefore do not develop crystalline grains and the associated dislocations. Consequently, bulk Liquidmetal alloys exhibit superior strength and other superior performance characteristics compared to their crystalline counterparts. Our Liquidmetal alloy coatings, in contrast to our bulk alloys, have a crystalline atomic structure when initially applied, but their atomic structure becomes amorphous as the coatings rub against surfaces under force, thus improving their performance over time.

Prior to 1993, commercially viable amorphous alloys could be created only in thin forms, such as coatings, films, or ribbons. However, in 1993, researchers at the California Institute of Technology (Caltech) developed the first commercially viable amorphous alloy in a bulk form. Today, bulk Liquidmetal alloys can be formed into objects that are up to one inch thick, and we are not aware of any other commercially available amorphous alloys that can achieve this thickness. We have the exclusive right to commercialize bulk amorphous alloy technology through a license agreement with Caltech and other patents that we own.

### *Proprietary Material Composition*

The constituent elements and percentage composition of Liquidmetal alloys are critical to their ability to solidify into an amorphous atomic structure. We have several different alloy compositions that have different constituent elements in varying percentages. These compositions are protected by various patents that we own or exclusively license from third parties, including Caltech. The raw materials that we use in Liquidmetal alloys are readily available and can be purchased from multiple suppliers.

### *Advantages of Liquidmetal Alloys*

Liquidmetal alloys possess a unique combination of performance, processing and cost advantages that we believe makes them superior in many ways to other commercially available materials for a variety of existing and potential future product applications.

### *Performance Advantages*

Our bulk Liquidmetal alloys provide several distinct performance advantages over other materials, and we believe that these advantages make the alloys desirable in applications that require high yield strength, strength-to-weight ratio, elasticity and hardness.

The high yield strength of bulk Liquidmetal alloys means that a high amount of stress must be exerted to create permanent deformation. However, because the yield strength is so high, the yield strength of many of our bulk Liquidmetal alloy compositions is very near their ultimate strength, which is the measure of stress at which total breakage occurs. Therefore, very little additional stress may be required to break an object made of bulk Liquidmetal alloys once the yield strength is exceeded. Although we believe that the yield strength of many of our bulk alloys exceeds the ultimate strength of most other commonly used alloys and metals, our bulk alloys may not be suitable for certain applications, such as pressurized tanks, in which the ability of the material to yield significantly before it breaks is more important than its strength advantage. Additionally, although our bulk alloys show a high resistance to crack initiation because of their very high strength and hardness, certain of our bulk alloys are sensitive to crack propagation under certain long-term, cyclical loading conditions. Crack propagation is the tendency of a crack to grow after it forms. We are currently developing new alloy compositions that have improved material properties to overcome these limitations.



### *Processing Advantages*

The processing of a material generally refers to how a material is shaped, formed, or combined with other materials to create a finished product. Bulk Liquidmetal alloys possess processing characteristics that we believe make them preferable to other materials in a wide variety of applications. In particular, our alloys are amenable to processing options that are similar in many respects to those associated with plastics. For example, we believe that bulk Liquidmetal alloys have superior net-shape casting capabilities as compared to high-strength crystalline metals and alloys. Net-shape casting is a type of casting that permits the creation of near-to-net shaped products that reduce costly post-cast processing or machining. Additionally, unlike most metals and alloys, our bulk Liquidmetal alloys are capable of being thermoplastically molded in bulk form. Thermoplastic molding consists of heating a solid piece of material until it is transformed into a moldable state, although at temperatures much lower than the melting temperature, and then introducing it into a mold to form near-to-net shaped products. Accordingly, thermoplastic molding can be beneficial and economical for net shape fabrication of high-strength products.

Bulk Liquidmetal alloys also permit the creation of composite materials that cannot be created with most non-amorphous metals and alloys. A composite is a material that is made from two or more different types of materials. In general, the ability to create composites is beneficial because constituent materials can be combined with one another to optimize the composite's performance characteristics for different applications. In other metals and alloys, the high temperatures required for processing could damage some of the composite's constituent materials and therefore limit their utility. However, the relatively low melting temperatures of bulk Liquidmetal alloys allow mild processing conditions that eliminate or limit damage to the constituent materials when creating composites. In addition to composites, we believe that the processing advantages of Liquidmetal alloys will ultimately allow for a variety of other finished forms, including a coating or a spray. Most high-strength metals and alloys cannot be processed into these forms.

Notwithstanding the foregoing advantages, our bulk Liquidmetal alloys possess certain limitations relative to processing. The beneficial processing features of our bulk alloys are made possible in part by the alloys' relatively low melting temperatures. Although a lower melting temperature is a beneficial characteristic for processing purposes, it renders certain bulk alloy compositions unsuitable for certain high-temperature applications, such as jet engine exhaust components. Additionally, the current one-inch thickness limitation of our zirconium-titanium bulk alloy renders our alloys currently unsuitable for use as structural materials in large-scale applications, such as load-bearing beams in building construction. We are currently engaged in research and development with the goal of developing processing technology and new alloy compositions that will enable our bulk alloys to be formed into thicker objects.

### *Cost Advantages*

Liquidmetal alloys have the potential to provide cost advantages over other high-strength metals and alloys in certain applications. Because bulk Liquidmetal alloy has processing characteristics similar in some respects to plastics, which lends itself to near-to-net shape casting and molding, Liquidmetal alloys can in many cases be shaped efficiently into intricate, engineered products. This capability can eliminate or reduce certain post-casting steps, such as machining and re-forming, and therefore has the potential to significantly reduce processing costs associated with making parts in high volume.

Additionally, because the near-to-net shape processing of Liquidmetal alloys reduces the need for capital-intensive heavy industrial equipment such as that found in foundry and forging operations, Liquidmetal alloys can be processed with a smaller machinery footprint, which allows for more efficient development of facilities and reduced permitting and regulatory costs. We believe that these advantages may allow our customers an opportunity to maintain or improve the performance of their products without a commensurate increase in cost.



*Our Strategy*

As a result of the experience and knowledge that we have gained through our activities to date, and recognizing that developing and commercializing a revolutionary new technology is an evolutionary process, we are continually modifying our business strategy to enable us to better capitalize on our evolving core strengths and more effectively pursue revenue growth and profitability. The key elements of our strategy include:

*Identifying and Developing New Applications for Our Liquidmetal Alloy Technology.* We intend to continue to identify and develop new applications that will benefit from the performance, processing, and cost advantages of Liquidmetal alloys.

*Focusing Our Marketing and Internal Manufacturing Activities on Select Products with Expected Higher Gross-Margins.* We intend to focus our marketing and internal manufacturing activities on select products with anticipated higher gross margins. This strategy is designed to align our product development initiatives with our manufacturing processes and manufacturing cost structure, and to reduce our exposure to more commodity-type product applications that are prone to unpredictable demand and fluctuating pricing. Our focus is primarily on higher-margin products that possess design features that take optimal advantage of our existing and developing manufacturing technology and that command a price commensurate with the performance advantages of our alloys. In addition to our focus on products with higher gross margins, we will continue to engage in prototype manufacturing, both for internally manufactured products and for products that will ultimately be licensed to or manufactured by third parties.

*Further Developing Our Manufacturing Processes, Capabilities, and Efficiencies for Bulk Liquidmetal Alloys.* We intend to improve and enhance our internal manufacturing processes, capabilities, and efficiencies in order to maintain quality control over products made from bulk Liquidmetal alloys, to focus on improvements to the processing of our alloys, and to protect our intellectual property. As our alloys become more pervasive, however, we expect to enter into additional strategic relationships that would involve the licensing of Liquidmetal technology to third parties for certain market segments.

*Pursuing Strategic Partnerships In Order to More Rapidly Develop and Commercialize Products.* We intend to actively pursue and support strategic partnerships that will enable us to leverage the resources, strength, and technologies of other companies in order to more rapidly develop and commercialize products. These partnerships may include licensing transactions in which we license full commercial rights to our technology in a specific application area, or they may include transactions of a more limited scope in which, for example, we outsource manufacturing activities or grant distribution rights. We believe that utilizing such a partnering strategy will enable us to reduce our working capital burden, better fund product development efforts, better understand customer adoption practices, leverage the technical and financial resources of our partners, and more effectively handle product design and process challenges. As this partnering strategy evolves, a growing portion of our revenue mix may be comprised of revenue from the provision of product development services, technical support, and engineering services, as well as revenues from royalties on the sale of Liquidmetal alloy products by our partners.

*Advancing the Liquidmetal® Brand.* We believe that building our corporate brand will foster continued adoption of our technology. Our goal is to position Liquidmetal alloys as a superior substitute for materials currently used in a variety of products across a range of industries. Furthermore, we seek to establish Liquidmetal alloys as an enabling technology that will facilitate the creation of a broad range of commercially viable new products. To enhance industry awareness of our company and increase demand for Liquidmetal alloys, we are reviewing various brand development strategies that could include collaborative advertising and promotional campaigns with select customers, industry conference and trade show appearances, public relations, and other means.

**Initial Applications**



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We have focused our commercialization efforts for Liquidmetal alloys on five identified product areas. We believe that these areas are consistent with our strategy in terms of market size, building brand recognition, and providing an opportunity to develop and refine our processing capabilities. Although we believe that strategic partnering transactions could create valuable opportunities beyond the parameters of these target markets, we anticipate continuing to pursue these markets both internally and in conjunction with partners.

### *Components for Electronic Products*

We produce components for electronic devices using our bulk Liquidmetal alloys and believe that our alloys offer enhanced performance and design benefits for these components in certain applications. Bulk Liquidmetal alloys can be used for various structural components of a cellular phone, including the shield, faceplate, hinge, hinge housings, back plate, side plates, brackets, and the cover on the phones. We initially targeted the electronic casings market because of its potential for high product volumes and branding opportunities; however, unpredictable customer adoption practices, short product model lives, processing limitations, and intense pricing pressures make it very challenging to compete in this high-volume market. Accordingly, we are currently limiting our focus in this market to higher-margin applications that have the potential to benefit from the unique performance characteristics of bulk Liquidmetal alloys. We continue to believe that the high strength-to-weight ratio and elastic limit of bulk Liquidmetal alloys enable the production of stronger and thinner electronic devices as compared to plastic, zinc, and magnesium, and we intend to focus on products that require these design and performance benefits.

Through our shipments to date, we have demonstrated that bulk Liquidmetal alloys can be used for structural components of cellular phones and other electronic devices. During 2003 and 2004, we shipped production quantities of cell phone components to Samsung Electronics Company and Vertu Limited, the luxury communication products subsidiary of Nokia, for inclusion in various cellular phone models.

### *Sporting Goods and Leisure Products*

We are developing a variety of applications for Liquidmetal alloys in the sporting goods and leisure products area.

In the sporting goods industry, we believe that the high strength, hardness, and elasticity of our bulk alloys have the potential to enhance performance in a variety of products, and we further believe that many sporting goods products are conducive to our internal manufacturing strategy of focusing on high-margin products that meet our design criteria. Substantial opportunities also exist for our amorphous alloy coatings, powders and composites. In 2003, Rawlings Sporting Goods Company launched a new line of baseball and softball bats that utilize a Liquidmetal alloy coating, and HEAD NV Sport launched a new line of HEAD® Liquidmetal® tennis racquets that incorporate Liquidmetal alloy in composite form in their racquet design. In 2005, we have also launched goods that utilize Liquidmetal alloy including skis. Other potential applications for our alloys in this industry include golf clubs, eyewear, fishing, hunting, and other sport products.

In the leisure products category, we believe that bulk Liquidmetal alloys can be used to efficiently produce intricately engineered designs with high-quality finishes, such as premium watchcases, and we further believe that Liquidmetal alloy technology can be used to make high-quality, high-strength jewelry from precious metals. We have successfully produced prototype rings made from an amorphous Liquidmetal platinum alloy that is harder (and hence more scratch resistant) than conventional platinum jewelry. In 2005, we have begun prototyping various watch pieces with TAG Heuer and we expect to be ready to move into production in the future.

In order to accelerate the commercialization of Liquidmetal alloys in the jewelry and high-end luxury products market, in June 2003 we entered into a strategic licensing transaction with LLPG, Inc., a corporation headed by a former director of our company with ties to the Swiss jewelry and luxury goods market. While we have not generated revenues to date, under this agreement, LLPG was granted a 10-year exclusive worldwide license to manufacture and sell a variety of luxury goods, including watchcases and precious-metal jewelry, utilizing Liquidmetal

alloys. Under the agreement, we are entitled to royalties over the life of the contract on all products produced and sold by LLPG.



### *Medical Devices*

We are engaged in product development efforts relating to various medical devices that could be made from Liquidmetal alloys. We believe that the unique properties of bulk Liquidmetal alloys provide a combination of performance and cost benefits that could make them a desirable replacement to incumbent materials, such as stainless steel and titanium, currently used in various medical device applications. Our greatest emphasis in 2003 and ongoing in 2004 has been on surgical instrument applications for Liquidmetal alloys. These include, but are not limited to, specialized blades, orthopedic instruments utilized for implant surgery procedures, dental devices, and general surgery devices. The potential value offered by our alloys is high performance in some cases and cost reduction in others, the latter stemming from the ability of Liquidmetal alloys to be net shape cast into components, thus reducing costs of secondary processing. The status of most components in the prototyping phase is subject to non-disclosure agreements with our customers.

We believe that our future success in the medical device market will be driven largely by strategically aligning ourselves with well-established companies that are uniquely positioned to facilitate the introduction of Liquidmetal alloys into this market, especially as it relates to the unique processing challenges and stringent material qualification requirements that are prevalent in this industry. We also believe that our prospects for success in this market will be enhanced through our focus on optimizing existing alloy compositions and developing new alloy compositions to satisfy the industry's rigorous material qualification standards.

### *Industrial Coatings and Powders*

We continue to market and sell amorphous alloy industrial coatings and powders under the Liquidmetal® Armacor™ Coatings brand name. Liquidmetal alloy coatings are used primarily as a protective coating for industrial machinery and equipment. Since the inception of this business in the late 1980s, our proprietary coatings have demonstrated a high degree of hardness and low coefficient of friction which, when combined with their strong adhesion properties, reduce the wear and consequent failure of the machinery and equipment on which they are used. In contrast to our bulk alloys, we sell Liquidmetal coatings primarily in the form of a wire or powder feedstock that is melted and applied to machinery or equipment through welding or thermal spray processes.

Our Liquidmetal coatings are widely used in the oil drilling industry as a protective coating on drill pipe and casings, and we estimate that our coatings represent a dominant share of annual worldwide sales of hard band coatings for new oil drill pipe. Drilling often places tremendous stress on pipes and casings, especially whenever the drill changes direction. Both the drill pipe and casing experience excessive wear, which leads to higher replacement costs and greater failure rates. Liquidmetal coatings are used to provide a protective coating, or hard band, around the outside of the drill pipe and the inside of casings to reduce wear and failure rates and accordingly reduce operating costs.

Liquidmetal coatings have also been sold into the power generation industry specifically for the purpose of coating boiler tubes in coal-burning power plants in order to extend the lives of these boilers. Boiler tubes are subject to high heat, erosion, and corrosion and often require costly replacement, both in terms of replacement parts and length of downtime for installation. Additionally, residue build-up in boiler tubes of coal burning power plants creates operating inefficiencies. Historic performance and testing of Liquidmetal coatings have demonstrated that our coatings extend the life of these boiler tubes meaningfully beyond their current average life depending on the specific environment. In addition, our coatings have demonstrated the ability to reduce build-up of residue on boiler tubes, helping to improve the efficiencies of the boilers. Historically, we have not concentrated sales efforts on the boiler tube market in a substantial way. However, given the size of the market and potential opportunities for our coatings, we have recently dedicated greater effort to this area.



*Defense Applications*

We are working with the U.S. Department of Defense, as well as a variety of defense-related research and development agencies and large defense contractors, to develop various defense-related applications for Liquidmetal alloys. For example, we are currently developing prototype kinetic energy penetrator rods for use in armor-piercing ammunition systems. Kinetic energy penetrators, or KEPs, are armor piercing munitions that are currently made primarily from depleted uranium or tungsten. Initial live-fire ballistic tests under the Liquidmetal KEP program have demonstrated that tungsten KEPs perform better whenever Liquidmetal alloy is combined with the tungsten to create a composite material. In August 2003, we signed a new \$3.0 million research and development contract with the U.S. Army for the development of KEPs. Our strategy is to orient the KEP program toward future systems such as the Joint Strike Fighter program and the Army's Future Combat System.

Liquidmetal is also working with NASA to conduct an experiment to use Liquidmetal alloys as the optical surface for spaced-based telescopes.

We also continue to work with a number of defense-related research and development agencies and large defense companies to identify additional military applications that may benefit from using Liquidmetal alloys. We believe that our alloys are well-positioned to capitalize on the trend toward lighter but stronger weapon systems in the U.S. military, and our strategy is to align ourselves with the largest and most significant players in this industry. Product development programs for defense applications are currently underway with several leading defense contractors, including Alliant Techsystems and Lockheed Martin.

**Liquidmetal Golf**



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From 1997 until September 2001, we engaged in the retail marketing and sale of golf clubs through a majority owned subsidiary, Liquidmetal Golf. The retail business of Liquidmetal Golf was discontinued in September 2001 and is now treated as a discontinued operation in our consolidated financial statements. Although the retail golf club business has been discontinued, Liquidmetal Golf will be engaged in the business of manufacturing and selling golf club components to golf original equipment manufacturers that will integrate these components into their own clubs and then sell them under their respective brand names. Liquidmetal Technologies owns 79% of the outstanding common stock in Liquidmetal Golf.

Our Liquidmetal Golf subsidiary has the exclusive right and license to utilize our Liquidmetal alloy technology for purposes of golf equipment applications. This right and license is set forth in an intercompany license agreement between Liquidmetal Technologies and Liquidmetal Golf. This license agreement provides that Liquidmetal Golf has a perpetual and exclusive license to use Liquidmetal alloy technology for the purpose of manufacturing, marketing, and selling golf club components and other products used in the sport of golf. In consideration of this license, Liquidmetal Golf has issued 4,500,000 shares of Liquidmetal Golf common stock to Liquidmetal Technologies.

### **Our Intellectual Property**



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Our intellectual property consists of patents, trade secrets, know-how, and trademarks. Protection of our intellectual property is a strategic priority for our business, and we intend to vigorously protect our patents and other intellectual property. Our intellectual property portfolio includes 27 owned or licensed U.S. patents and numerous patent applications relating to the composition, processing, and application of our alloys, as well as various foreign counterpart patents and patent applications.

Our initial bulk amorphous alloy technology was developed by researchers at the California Institute of Technology ( Caltech ). We have purchased patent rights that provide us with the exclusive right to commercialize the amorphous alloy and other amorphous alloy technology acquired from Caltech through a license agreement ( Caltech License Agreement ) with Caltech. Under the Caltech license agreement, we have the exclusive worldwide right to make, use, and sell products from all of Caltech 's inventions, proprietary information, know-how, and other technology relating to amorphous alloys existing as of September 1, 2001. We also have an exclusive worldwide license to nine issued patents and four patent applications held by Caltech relating to

amorphous alloy technology, as well as all related foreign counterpart patents and patent applications. Of the patents currently issued to Caltech and licensed by us, the earliest expiration date is 2013 and the latest expiration date is 2021. Furthermore, the license agreement gives us the exclusive right to make, use, and sell products from substantially all amorphous alloy technology that is developed in Professor William Johnson's Caltech laboratory during the period September 1, 2001 through August 31, 2005. All fees and other amounts payable by us for these rights and licenses have been paid in full, and no further royalties, license fees, or other amounts will be payable in the future under this license agreement.

Our rights under the license agreement are perpetual in duration. However, Caltech has the right to convert the license to a non-exclusive license if we fail to utilize the licensed technology for a period of 18 or more consecutive months, provided that Caltech must give us 180-days advance written notice of the conversion and we may cure the failure at any time during the 180-day notice period. If we cure the failure, then the license will not be converted into a non-exclusive license.

Under the license agreement, we have the right to sublicense any of the licensed technology or patents. The license agreement also provides that Caltech reserves the right to use the licensed technology and patents for noncommercial educational and research purposes. The patents and patent applications that we license from Caltech relate primarily to the composition and processing of our alloys. The currently issued U.S. patents covered by the license agreement will expire between 2012 and 2013.

Under the Caltech license agreement, the parties are obligated to provide reasonable cooperation to each other in connection with any threatened or actual infringement of the licensed technology by third parties. We have the right to commence an action for infringement of any of the licensed technology, and although Caltech is not obligated to bring suit or take action against infringers, Caltech is obligated to join in any such lawsuit upon our request.

In addition to the patents and patent applications that we license from Caltech, we are building a portfolio of our own patents to expand and enhance our technology position. These patents and patent applications primarily relate to various applications of our bulk amorphous alloys, the composition of our coatings and powders, and the processing of our alloys. The patents relating to our coatings expire on various dates between 2005 and 2017, and the patents relating to our bulk amorphous alloys expire on various dates between 2013 and 2021. Our policy is to seek patent protection for all technology, inventions, and improvements that are of commercial importance to the development of our business, except to the extent that we believe it is advisable to maintain such technology or invention as a trade secret.

In order to protect the confidentiality of our technology, including trade secrets, know-how, and other proprietary technical and business information, we require that all of our employees, consultants, advisors and collaborators enter into confidentiality agreements that prohibit the use or disclosure of information that is deemed confidential. The agreements also obligate our employees, consultants, advisors and collaborators to assign to us developments, discoveries and inventions made by such persons in connection with their work with us.

## **Research and Development**





We are engaged in ongoing research and development programs that are driven by the following key objectives:

*Enhance Material Processing and Manufacturing Efficiencies.* We plan to continue research and development of processes and compositions that will decrease our cost of making products from Liquidmetal alloys.

*Optimize Existing Alloys and Develop New Compositions.* We believe that the primary technology driver of our business will continue to be our proprietary alloy compositions. We plan to continue research and development on new alloy compositions to generate a broader class of amorphous alloys with a wider range of specialized performance characteristics. During 2003 and continuing into 2005, we have successfully

expanded our portfolio of bulk amorphous alloys to include additional zirconium-titanium alloys, as well as alloys based on other metals, such as iron, gold, and platinum. Although these various compositions are at different stages of development and only a few are currently suitable for commercial use, we believe that a larger alloy portfolio will enable us to increase the attractiveness of our alloys as an alternative to incumbent materials and, in certain cases, drive down product costs. We also believe that our ability to optimize our existing alloy compositions will enable us to better tailor our alloys to our customers' specific application requirements.

*Develop New Applications.* We will continue research and development of new applications for Liquidmetal alloys. We believe the range of potential applications will broaden by expanding the forms, compositions, and methods of processing of our alloys.

We conduct our research and development programs internally and also through strategic relationships that we enter into with third parties. Our internal research and development efforts are currently focused on product and process development. Our internal research and development efforts are conducted by a team of 15 scientists, engineers and researchers whom we either employ directly or engage as consultants. Included among this team are Professor William Johnson, who discovered our initial bulk amorphous alloy at Caltech in 1993, and his graduate student at the time, Atakan Peker, who is employed as our Vice President of Technology. Professor Johnson was an employee of our company from October 2001 through December 2003 and then became a consultant to the Company. Professor Johnson continues to be a member of our board of directors.

In addition to our internal research and development efforts, we enter into cooperative research and development relationships with leading academic institutions. Professor Johnson continues to supervise a laboratory at Caltech, and through our license agreement with Caltech, we have a continuing relationship with the other researchers in Professor Johnson's Caltech laboratory. We have also entered into research relationships with several other academic institutions for the conduct of research relating to the properties and characteristics of our alloys.

We have entered into development relationships with other companies for the purpose of identifying new applications for our alloys and establishing customer relationships with such companies. Some of our product development programs are partially funded by our customers. We are also engaged in negotiations with other potential customers regarding possible product development relationships. Our research and development expenses for the years ended December 31, 2004, 2003, and 2002 were \$1.5 million, \$8.8 million, and \$11.8 million, respectively.

## **Manufacturing**



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We currently own and operate a 166,000 square foot manufacturing facility in Pyongtaek, South Korea, which became operational in the third quarter of 2002. We opened a 14,400 square foot facility in Weihai, China in August 2004 to facilitate our bulk alloy manufacturing business. We believe that these facilities will meet our anticipated manufacturing needs for the foreseeable future, although these needs may change depending upon the actual and forecasted orders we receive for our products. We currently intend to develop supplemental research and development, prototyping and manufacturing capabilities elsewhere, including the United States, for purposes of meeting our long-term manufacturing needs and our customers' requirements. In December 2003, we entered into a license agreement with Florida Custom Mold, Inc., a Clearwater, Florida-based company that specializes in high-quality mold design and injection molding services, under which Florida Custom Mold is currently acting as a contract manufacturer to our company for purposes of producing prototypes of certain defense and medical products in the US.

### **Raw Materials**



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Liquidmetal alloy compositions are comprised of many elements, all of which are available commodity products. We believe that each of these raw materials is readily available in sufficient quantities from multiple sources on commercially acceptable terms. However, any substantial increase in the price or interruption in the supply of these materials could have an adverse effect on our profitability.

**Customers**





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During 2004, four customers accounted for 10% or more of our revenue from continuing operations. Revenues from Charm Tech and Pntel, both of which are direct suppliers to Samsung, represented 62% of revenue from continuing operations for the year ended 2004. Also, revenues from defense related contracts with the United States of America represented 10% and Growell Metal represented 12% of revenue from continuing operations for the year ended 2004. During 2003, three customers accounted for 10% or more of our revenue from continuing operations. Revenue from Samsung represented 10% of revenue, revenue from LLPG, Inc. represented 12% and defense-related contracts with three departments of the United States of America represented 16% of revenue from continuing operations for the year ended December 31, 2003. During the year ended December 31, 2002, revenue from Samsung represented 15% of revenue while revenue earned on contracts with the government represented 16% of revenue from continuing operations. We expect that a significant portion of our revenue may continue to be concentrated in a limited number of customers, even as our bulk Liquidmetal alloy business grows.

### **Competition**



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We are not aware of any other company or business that manufactures, markets, distributes, or sells bulk amorphous alloys or products made from bulk amorphous alloys. We believe it would be difficult to develop a competitive bulk amorphous alloy without infringing our patents. However, we expect that our bulk Liquidmetal alloys will face competition from other materials, including metals, alloys, plastics and composites, which are currently used in the commercial applications that we pursue. Our alloys could also face competition from new materials that may be developed in the future, including new materials that could render our alloys obsolete.

Our Liquidmetal alloy coatings face competition from industrial coatings currently manufactured or sold by other companies. At present, the primary competitors of our coatings business are Varco International, Inc. and Arco Technology Trust, Limited. Although we believe, based on market data gathered by us, that our coatings compete favorably with these companies' products and that we continue to maintain the dominant market share with respect to protective coatings for oil drill pipe and casings, these competitors are larger well-established businesses that have substantially greater financial, marketing, and other resources than we do.

We will also experience indirect competition from the competitors of our customers. Because we will rely on our customers to market and sell finished goods that incorporate our components or products, our success will depend in part on the ability of our customers to effectively market and sell their own products and compete in their respective markets.

### **Backlog**



In our bulk alloy segment, because of the minimal lead-time associated with orders of bulk alloy parts, we generally do not carry a significant backlog. In our coatings segment, we typically ship our coating products shortly after receipt of an order, and our coatings backlog is therefore also insignificant. In both our bulk alloy segment and coatings segment, the backlog as of any particular date gives no indication of actual sales for any succeeding period.

**Sales and Marketing**



We direct our marketing efforts towards customers that will incorporate our components and products into their finished goods. To that end, we will continue to hire business development personnel who, in conjunction with engineers and scientists, will actively identify potential customers that may be able to benefit from the introduction of Liquidmetal alloys to their products. In some cases, we will develop applications in conjunction with existing or potential customers. By adopting this strategy, we intend to take advantage of the sales and marketing forces and distribution channels of our customers to facilitate the commercialization of our alloys. We also direct business development efforts toward companies who we believe could be viable candidates for potential partnering transactions, such as licensing relationships, distribution arrangements, joint ventures, and the like.



**Employees**



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As of October 1, 2005, we had 335 full-time employees. As of that date, 69 of our Korean operation employees were represented by a labor union. We have not experienced any work stoppages and we consider our employee relations to be favorable.

### **Governmental Regulation**



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Medical instruments incorporating our Liquidmetal alloys will be subject to regulation in the United States by the FDA and corresponding state and foreign regulatory agencies. Any orthopedic devices that we develop will be regulated in a similar manner. Medical device manufacturers to whom we intend to sell our products may need to obtain FDA approval before marketing their medical devices that incorporate our products. Medical device manufacturers may need to obtain similar approvals before marketing these medical device products in foreign countries.

Because we intend to sell our medical device products to medical device manufacturers, we do not believe that we will need to obtain FDA approval or similar foreign approvals before selling products to medical device manufacturers. Nonetheless, as a manufacturer of medical device components, we would be subject to quality control and record keeping requirements of FDA and other federal and state statutes and regulations, as well as similar regulations in foreign countries.

The process of obtaining and maintaining required FDA and foreign regulatory approvals for medical devices that incorporate our products could be lengthy, expensive, and uncertain for our customers. Additionally, regulatory agencies can delay or prevent product introductions. Generally, before a medical device manufacturer can market a product incorporating one of our products, our customer must obtain for their finished product marketing clearance through a 510(k) premarket notification or approval of a pre-market approval application, or PMA. The FDA will typically grant a 510(k) clearance if the applicant can establish that the device is substantially equivalent to a predicate device. It generally takes a number of months from the date of a 510(k) submission to obtain clearance, but it may take longer, particularly if a clinical trial is required.

The FDA may find that a 510(k) is not appropriate for a medical device that incorporates our product or that substantial equivalence has not been shown and as a result will require a PMA. A PMA application must be submitted if a proposed medical device does not qualify for a 510(k) pre-market clearance procedure. PMA applications must be supported by valid scientific evidence to demonstrate the safety and effectiveness of the device, typically including the results of clinical trials, bench tests, and laboratory and animal studies. The PMA process can be expensive, uncertain and lengthy, requires detailed and comprehensive data, and generally takes significantly longer than the 510(k) process. Additionally, the FDA may never approve the PMA.

Similar regulations in foreign countries vary significantly from country to country and with respect to the nature of the particular medical device. The time required to obtain these foreign approvals to market our products may be longer or shorter than that required in the United States, and requirements for such approval may differ from FDA requirements.

### **Material Legal Proceedings**



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We and certain of our present and former officers and directors were named as defendants in nine purported class action complaints filed in the United States District Courts for the Middle District of Florida, Tampa Division, and the Central District of California, Southern Division, alleging violations of Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. In August 2004, four complaints were consolidated in the United States District Court for the Middle District of Florida under the caption *Primavera Investors v. Liquidmetal Technologies, Inc., et al.*, Case No. 8:04-CV-919-T-23EAJ. John Lee, Chris Cowley, Dwight Mamanteo, Scott Purcell and Mark Rabold were

appointed co-lead plaintiffs (the Lead Plaintiffs). In September 2004, the five complaints filed in the Central District of California were transferred to the Middle District of Florida for consolidation with the *Primavera Investors* action. The Lead Plaintiffs served their Consolidated Amended Class Action Complaint on January 12, 2005. The Amended Complaint alleges that the Prospectus issued in connection with our initial public offering in May 2002 contained material misrepresentations and omissions regarding our historical financial condition and regarding a personal stock transaction by our chief executive officer. The Lead Plaintiffs further generally allege that during the proposed Class Period of May 21, 2002, through May 13, 2004, the defendants engaged in improper revenue recognition with respect to certain of our business transactions, failed to maintain adequate internal controls, and knowingly disclosed unrealistic but favorable information about market demand for and commercial viability of our products to artificially inflate the value of our stock. The Amended Complaint seeks unspecified compensatory damages and other relief. We, along with other defendants, filed a Motion to Dismiss Plaintiffs Consolidated Amended Class Action Complaint on March 28, 2005. The Lead Plaintiffs served their Memorandum in Opposition to Defendants Motion to Dismiss Consolidated Amended Class Action Complaint on June 3, 2005. We cannot predict when the court will rule on the Motion to Dismiss. We intend to vigorously defend against the class action. We cannot currently predict the impact or resolution of this litigation or reasonably estimate a range of possible loss, which could be material. The resolution of this lawsuit may harm our business and have a material adverse impact on our financial condition.

In addition to the above, certain of our present and former officers and directors, as well as our company as a nominal defendant, have been named in three shareholder derivative actions. Two shareholder derivative complaints were filed in California state court styled *Brian Clair, Derivatively on Behalf of Liquidmetal Technologies, Inc. v. John Kang, et al.*, Case No. 04CC00551, and *Joseph Durgin, Derivatively on Behalf of Liquidmetal Technologies, Inc. v. John Kang, et al.*, Case No. 04CC00553, both commenced in the Superior Court of Orange County, California. A third shareholder derivative complaint was filed in Florida federal court styled *Robert Story v. John Kang, et al.*, Case No. 8:04-CV-1587-T-23TBM, commenced in the Middle District of Florida, Tampa Division. These shareholder derivative lawsuits allege that the defendants breached various fiduciary duties and otherwise violated state law based primarily upon the same underlying facts and circumstances as alleged in the federal shareholder class action. The plaintiffs seek unspecified compensatory damages, restitution and disgorgement of profits, equitable and/or injunctive relief as permitted by law and other relief.

The two shareholder derivative complaints in California state court have been consolidated. Plaintiffs served a Consolidated Shareholder Derivative Complaint on October 12, 2004. The defendants served a Demurrer to the Consolidated Shareholder Derivative Complaint on November 22, 2004, seeking dismissal of that complaint. At a hearing on February 10, 2005, the court sustained the demurrer, dismissing the Consolidated Shareholder Derivative Complaint but giving the plaintiffs 45 days within which to amend the complaint. Plaintiffs filed their Consolidated Amended Shareholder Derivative Complaint on March 28, 2005. We, along with other defendants, filed a corrected demurrer on May 17, 2005, again seeking dismissal of the amended complaint. At a hearing on July 7, 2005, the Court again sustained the demurrer, dismissing the Consolidated Amended Shareholder Derivative Complaint but giving the plaintiffs 40 days within which to further amend the complaint. On August 16, 2005, the plaintiffs filed a Consolidated Second Amended Shareholder Derivative Complaint. We, along with the other defendants, filed a demurrer on September 15, 2005, again seeking dismissal of the second amended complaint. A hearing on that demurrer was held on October 19, 2005, but was continued pending resolution of a dispute regarding our participation in discovery in the California derivative action before the Motion to Dismiss the class action is resolved. On October 28, 2005, the presiding judge in the class action resolved the discovery dispute by denying our Motion to Stay Discovery in Related State Action, and we are now required to produce discovery materials in the California derivative action. Once those discovery materials are produced to and reviewed by the plaintiffs counsel in the California derivative action, the judge will reconvene the hearing to determine whether the pending demurrer should be sustained without leave to amend.

In the Florida derivative action, the Plaintiff filed a First Amended Shareholder Derivative Complaint on November 22, 2004. Our Motion to Dismiss, which was filed on December 20, 2004, is fully briefed. We cannot predict when the court will rule on the Motion to Dismiss. We intend to vigorously defend against the derivative actions. We cannot currently predict the impact or resolution of this litigation or reasonably estimate a range of possible loss, which could be material. The resolution of these lawsuits may harm our business and have a material adverse impact on our financial condition.



## PROPERTIES

Our principal executive offices and principal research and development offices are located in Lake Forest, California and consist of approximately 30,000 square feet. This facility is occupied pursuant to a lease agreement that expires in June 2007.

In Conroe, Texas, we lease an office and warehouse for our coatings business segment. This facility, which is approximately 10,000 square feet, is leased through September 2006.

Our principal prototyping and manufacturing facility is in Pyongtaek, South Korea, and consists of approximately 166,000 square feet. We lease the land on which this facility is located, although we own the buildings, fixtures, and all personal property located on the land. The parcel of land consists of approximately four acres and is leased through 2022.

On August 2004, we entered into a 3 year lease for a post-processing facility located in Weihai, China, which consists of approximately 14,400 square feet, to facilitate our bulk alloy manufacturing.

We currently expect that the foregoing facilities will meet our anticipated internal manufacturing, research, warehousing, and administrative needs for the foreseeable future.

**MANAGEMENT**



**Directors**



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Listed below are the names of each of our directors, together with certain additional information concerning each such director as of October 1, 2005.

### Directors with Terms Expiring at 2007 Annual Meeting

Name	Age	Business Experience During Last Five Years	Director Since
James Kang	45	James Kang has served as a director since December 1994 and as executive Founder of our company since August 2003. From December 1994 to June 2001, he served variously as our Chief Executive Officer, President, and Chairman. Mr. Kang received a B.A. degree in Marketing from the University of Illinois in 1983, and an M.B.A. degree from the Kellogg School of Management at Northwestern University in 1985. Mr. Kang is the brother of John Kang, Chief Executive Officer and President.	1994
Vincent Addonisio	49	Vincent Addonisio was elected as a director in May 2004. Mr. Addonisio is President and CEO of Regency Strategic Advisors, Inc., a firm he founded to advise select corporate clients on strategy, business development, and mergers and acquisitions. Currently, Mr. Addonisio is on the Board of Directors of 3I Infotech Limited, a public company listed on the national stock exchange in India. Previously, he served as a director, executive vice president and chief administrative officer for IMRglobal Corp., a public company that was subsequently acquired in 2001. Prior to joining IMRglobal, he was a director, executive vice president and chief financial officer for ABR Information Services, Inc., a public company which he also helped lead through initial and secondary public offerings and strategic acquisitions. A CPA, Addonisio began his career with an international accounting firm and subsequently joined W.R. Grace, where he held positions of progressive management responsibility. He holds a BS degree in accounting from Binghamton University and earned an MBA from Georgia Institute of Technology in Atlanta.	2004

**Directors with Terms Expiring at 2006 Annual Meeting**

Dean Tanella	45	Dean G. Tanella was elected as a director in February 2004. Mr. Tanella is a 20-year veteran of the institutional investment business and has worked for such leading firms as Raymond James & Associates, CS First Boston Corp., Adams Harkness & Hill, Drexel Burnham Lambert, Inc., Kidder Peabody & Co. and the Vanguard Group. Since 1999, Mr. Tanella has served as President of Safe Harbor Capital, LLC and, since 2003, as President of HarborLight Capital, LLC, both of which are private investment firms. Mr. Tanella received his bachelors degree from Princeton University and his MBA from the Harvard Graduate School of Business Administration. In December 2004, Mr. Tanella was also named Executive Vice President Capital Markets Group and a member of the Board of Directors at GunnAllen Financial Inc., a leading independent brokerage firm headquartered in Tampa, Florida.	2004
CK Cho	50	CK Cho was elected as a director in January 2005. Mr. Cho has over 18 years of experience with Samsung Electronics and managed over \$700 million annual procurement budget responsible for semi-conductor and telecommunication equipment and other electronic components. He also served as CEO and President of Winvest Venture Partners Inc. and is currently serving as President and CEO of ATIC, an IT Venture Capital Company based in Korea. Mr. Cho received his bachelors degree majoring in Business Administration and Material Sciences from the Korea University of Seoul.	2005

**Directors with Terms Expiring at 2005 Annual Meeting or the First Annual Meeting Thereafter**

John Kang	42	John Kang has been a director of our Company since 1994. From December 1994 to June 2001, he served as Chairman of our Board of Directors in various capacities. Since June 2001, Mr. Kang has served variously as our Chief Executive Officer and President. From July 1996 to September 2000, Mr. Kang served variously as Chief Executive Officer, President, and a director of Medical Manager Corporation, a public company traded on the Nasdaq National Market until its sale in September 2000 to WebMD Corporation. From 1988 to 1995, he was Chairman of the board of directors of Clayton Group, Inc., a private company engaged in the distribution of waterworks equipment. Mr. Kang received a B.A. degree in Economics from Harvard College in 1985. Mr. Kang is the brother of James Kang, one of our directors.	1994
William Johnson, Ph.D.	56	William Johnson, Ph.D., has served as a director since June 2000. From October 2001 to September 2003, he was employed as our executive Vice Chairman of Technology. Since 1988, Professor Johnson has been the Mettler Professor of Engineering and Applied Physics at Caltech. He held a Visiting Professor appointment at the Metal Physics Institute in Gottingen, Germany (1983) and received a Von Humbolt Distinguished Scientist Fellowship in	2000

Gottingen (1988). He is the 1995 recipient of the TMS/AIME Hume Rothery Award for his experimental work. He received a B.A. degree in Physics from Hamilton College and a Ph.D. degree in Applied Physics from Caltech. He spent two years at IBM's Research Center (1975-1977). At Caltech, Professor Johnson directed the research that led to the discovery of our bulk Liquidmetal alloy. Professor Johnson is currently a consultant to the Company.

Bobb Biehl	61	<p>Bobb Biehl has served as a director since January 2005. Mr. Biehl is an executive mentor. In 1976, he founded Masterplanning Group International. As President, he has personally consulted with over 400 clients ranging from start up to multi-billion dollar organizations. He has published 20 books in the area of personal and organizational development. He is a frequent key note speaker at various conferences. Prior to starting Masterplanning Group, Mr. Biehl was an executive staff of World Vision International where he designed and developed the Love Loaf Program, which has raised millions of dollars for hunger worldwide. Mr. Biehl received his B.A. degree in psychology and a Masters Degree in Counseling from Michigan State University.</p>	2005
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**Term of Directors**





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Our board of directors is divided into three classes (designated CLASS I, CLASS II, and CLASS III ), as nearly equal in number as possible, with each class serving three-year terms expiring at the third annual meeting of stockholders after their elections or until their respective successors have been elected and qualified. CLASS I currently consist of the following directors whose term is scheduled to expire at the 2005 annual meeting of stockholders or the first annual meeting thereafter: John Kang, William Johnson, and Bobb Biehl. CLASS II currently consists of the following directors whose term is scheduled to expire at the 2006 annual meeting of stockholders: Dean Tanella and CK Cho. CLASS III currently consists of the following directors whose term will expire at the 2007 annual meeting of stockholders: James Kang and Vincent Addonisio.

### **Audit Committee**



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Our board of directors has an Audit Committee that is currently comprised of Mr. Addonisio and Mr. Tanella. The Audit Committee is responsible for reviewing the independence, qualifications, and activities of our independent certified accountants and our financial policies, control procedures, and accounting staff. The Audit Committee is also responsible for the review of transactions between us and any officer, director, or entity in which an officer or director of our company has a material interest. Our board of directors has determined that Mr. Addonisio and Mr. Tanella each qualify as audit committee financial experts as defined by the regulations of the Securities and Exchange Commission. In addition, our board of directors has determined that Mr. Addonisio and Mr. Tanella are independent directors within the meaning of Rule 10A-3(b)(i) under the Securities Exchange Act of 1934. The Audit Committee is governed by a written charter approved by the board of directors.

### **Compensation Committee**



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The Compensation Committee is comprised of Mr. Cho and Mr. Biehl. All of the members of the Compensation Committee are independent directors, as defined by the rules applicable to members of the Compensation Committee. The Compensation Committee is responsible for establishing the compensation of our senior management, including salaries, bonuses, termination arrangements, and other executive officer benefits. The Compensation Committee also administers our equity incentive plans.

**Corporate Governance and Nominating Committee**





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A Corporate Governance and Nominating Committee ( the Committee ) was formed on February 18, 2003, and is comprised of Mr. Tanella and Mr. Biehl. All members of the Committee are independent directors, as defined by the rules applicable to members of the Committee. The Committee is generally responsible for adopting policies, procedures, and practices designed to help ensure that our corporate governance policies, procedures, and practices continue to assist the board and our management in effectively and efficiently promoting the best interests of our stockholders. The Committee is also responsible for selecting and recommending for approval by the Board and the Company s stockholders a slate of director nominees for election at each of the Company s annual meetings of stockholders, and otherwise for determining the Board committee members and chairmen, subject to Board ratification, as well as recommending to the Board director nominees to fill vacancies or new positions on the Board or its committees that may occur or be created from time to time, all in accordance with the Company s Bylaws and applicable law.

The Corporate Governance Committee s principal functions include:

developing and maintaining our corporate governance policy guidelines;

developing and maintaining our codes of conduct and ethics;

overseeing the interpretation and enforcement of our Code of Conduct and our Code of Ethics for Chief Executive Officer and Senior Financial and Accounting Officers; and

evaluating the performance of our board, its committees, and committee chairmen and our directors.

selecting and recommending a slate of director nominees for election at each of the Company s annual meeting of the stockholders and recommending to the Board director nominees to fill vacancies or new positions on the Board or its committees that may occur from time to time.

### **Code of Ethics**



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Our board of directors has adopted a Code of Ethics that is applicable to its principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. The Code of Ethics is attached as Exhibit 14 to our Annual Report on Form 10-K filed on November 10, 2004. In addition, we intend to promptly disclose (1) the nature of any amendment to our Code that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and (2) the nature of any waiver, including an implicit waiver, from a provision of our Code that is granted to one of these specified officers, the name of such person who is granted the waiver and the date of the waiver on our website in the future. You may also request a copy of the Code by sending the request to [information@liquidmetal.com](mailto:information@liquidmetal.com).

### **Director Compensation**

Our non-employee directors receive an annual fee of \$10,000 for their service to our board and are reimbursed for expenses incurred in attending board and committee meetings. Non-employee directors are also entitled to receive a \$10,000 annual cash stipend for each standing board committee (excluding the Audit Committee) on which the director serves. For Audit Committee service, the Audit Committee chairman is entitled to a \$35,000 annual stipend, and the other members of the Audit Committee are entitled to a \$27,500 annual stipend. In addition to the annual stipends, each non-employee director is entitled to receive a per-meeting fee of \$1,000 for each meeting of the board of directors or any board committee attended in person. Effective May 2004, Vincent Addonizio was elected as the lead independent director of the Company. The lead independent director is entitled to a \$30,000 annual stipend.

We also have a 2002 Non-employee Director Stock Option Plan pursuant to which our non-employee directors are entitled to receive stock options. Under this plan, when a director is first elected or appointed to our board of directors, the non-employee director is entitled to receive an initial stock option grant to purchase 50,000 shares of our common stock. Thereafter, on the first business day of January of each year in which the director continues to serve as a member of our board, the director is entitled to an annual stock option grant to purchase 10,000 shares of our common stock. All options granted under the plan have an exercise price equal to the fair market value of our common stock on the date of the grant. These stock options have a 10-year term, vest, and are exercisable pursuant to an equal 5-year vesting schedule, and remain exercisable for certain periods of time after a person is no longer a director.

No director who is an employee will receive separate compensation for services rendered as a director. However, our employee directors are eligible to participate in our 2002 Equity Incentive Plan.

### **Executive Officers**

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The executive officers of our company as of October 1, 2005, together with their ages, positions and business experience are:

NAME	AGE	POSITION
John Kang	42	Chairman, President and Chief Executive Officer
James Kang	45	Director and Founder
Young Ham	36	Chief Financial Officer

*Young Ham.* Young Ham has been our Chief Financial Officer since April 2005, prior to which he served as the CFO of the Asian operation in 2004. Prior to joining Liquidmetal, he served as President and Chief Consultant of Dime Financial Advisory based in Seoul, Korea from November 1999 through July 2003. In addition, Mr. Ham was a founding partner for Hanmi Accounting Corporation in South Korea since July 2003 where he provided accounting and consulting services to multi-national corporations. Mr. Ham was also the Chief Internal Auditor and Financial Advisor to Answer International Asia Inc. and Director of Dongyang Economy Research Institute. Financial advisory and management consulting clients have included, Nextel Co., Ltd, Korea Masterbuilders, Korea Spoland Co., Ltd.. Tax and legal service clients range from Hyundai Merchant Marine to the Korea National Oil Company. An M.B.A. graduate student of Seoul National University in 1994, Young Ham is a CPA in both the United States and Seoul, South Korea..

### Summary Compensation Table

The following table sets forth certain information regarding compensation paid by us for each of our last three years to our Chief Executive Officer and each of our four other most highly compensated executive officers during 2004 (collectively, the named executive officers ) for services rendered in all capacities to us at any time during such periods.

Name and Positions	Year	Annual Compensation			Long-Term Compensation	
		Salary	Bonus	Other Annual Compensation	Shares Underlying Options Granted	All Other Compensation
John Kang(1)	2004	\$	208,586			
Chairman of the Board	2003	\$	300,007			
	2002	\$	116,671			
John Thorne(2)	2004	\$	37,500			
Chief Executive Officer and President	2003					
	2002					
James Kang(3)	2004	\$	300,004			
Founder and Director	2003	\$	280,011			
	2002	\$	373,334			2,877,420
David Binnie(4)	2004	\$	142,506			
Senior VP of Administration and Secretary	2003	\$	140,005			150,000
	2002	\$	150,005			
Tony Chung(5)	2004	\$	73,544			80,000
VP of Finance	2003					
	2002					

(1) As of August 22, 2003, John Kang was named Chairman of our board of directors, in addition to already serving as Chief Executive Officer and President. Mr. Kang temporarily relinquished the office of Chief Executive Officer from January 14, 2005 to May 5, 2005.

(2) As of May 3, 2005, John Thorne ceased to be our Chief Executive Officer.

(3) As of August 22, 2003, James Kang became the executive Founder of the Company and ceased to be the Chairman of our board of directors.

(4) Mr. Binnie joined Liquidmetal in October 2001 as Vice President of Human Resources and assumed the position of Senior Vice President of Administration and Secretary effective December 2003. As of September 30, 2005, Mr. Binnie ceased to be an employee and officer of our company.

(5) Mr. Chung joined Liquidmetal in May 2004 as Director of Finance and assumed the position of Vice President of Finance effective November 2004. As of April 15, 2005, Mr. Chung ceased to be an executive officer of the Company and has taken the role of Vice President of Operations.





**Option grants in last fiscal year**

Name (a)	Number of Securities Underlying Options Granted (#) (b)	Individual Grants			Expiration Date (e)	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
		Percentage of Total Options Granted to Employees in Fiscal Year (c)	Exercise of Base Price (\$/Share) (d)	5% (\$) (f)		10% (\$) (g)	
John Kang							
John Thorne							
James Kang							
David Binnie							
Tony Chung	80,000	13%	\$ 1.86	12/31/2005	\$	151,057	\$ 328,589

**Aggregate Option Exercises in Last Year and Year-End Option Values**

	Shares Acquired on Exercise	Value Realized (1)	Number of Securities Underlying Unexercised Options at December 31, 2004		Value of Unexercised In-The-Money Options at Year End (2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
John Kang			1,612,904			
James Kang			2,845,162	32,258		
John Thorne						
David Binnie			69,335			
Tony Chung				80,000	\$	30,240

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(1) Represents the difference between the fair market value of the underlying shares at the time of exercise and the exercise price of the options exercised.

(2) Based upon a value of \$2.30 per share as of December 31, 2004.

**Agreements with Named Executive Officers**



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We have entered into employment agreements with the executive officers identified above, as follows:

**John Kang.** On December 31, 2000, we entered into an employment agreement with John Kang that, as amended, provides for his employment as our Chief Executive Officer and President, and on August 22, 2003, Mr. Kang was named Chairman of our Board of Directors. Mr. Kang's employment agreement expires on December 31, 2005. Mr. Kang receives an annual base salary equal to \$200,000 per year, and his employment will terminate upon the earlier of his death, resignation, disability, or termination by the board of directors for any reason. If we terminate Mr. Kang's employment without cause, or if Mr. Kang terminates his own employment upon a change of control of our company or for other good reason, as defined in the agreement, we are responsible for paying Mr. Kang a lump-sum cash payment equal to 200% of Mr. Kang's annual base salary plus the average cash bonus during the two full fiscal years immediately preceding the termination. Pursuant to the agreement, Mr. Kang was issued options to purchase 1,612,904 shares of our common stock at an exercise price of \$4.65 per share. The options expire on December 31, 2010 and vested immediately upon grant. In addition, Mr. Kang is prohibited, during his employment with us and for one year after he is no longer employed by us, from soliciting any of our employees or competing with us in any manner. Starting in May 2003, Mr. Kang and other members of senior management took a 10% voluntary decrease in their base salary and returned to full salary in June 2004.

**John Thorne.** On January 14, 2005, we entered into an employment agreement with John Thorne, which provided for his employment as the named Chief Executive Officer and President of our company. Mr. Thorne's employment expired May 3, 2005 under the terms of his employment agreement, and his employment agreement was not renewed. Accordingly, Mr. Thorne ceased to work for our company as of May 3, 2005. During his employment, Mr. Thorne's monthly salary was \$20,834, and he received 10,000 stock options on May 3, 2005.

**James Kang.** On May 1, 2001, we entered into an employment agreement with James Kang that, as amended, provides for his employment as the named executive Founder of our company. Mr. Kang's employment agreement expires on May 1, 2006. Mr. Kang receives an annual base salary equal to \$300,000 per year, and his employment will terminate upon the earlier of his death, resignation, disability, or termination by the board of directors for any reason. If we terminate Mr. Kang's employment without cause, or if Mr. Kang terminates his own employment upon a change of control of our company or for other good reason, as defined in the agreement, we are responsible for paying Mr. Kang a severance benefit equal to a lump-sum cash payment equal to 200% of Mr. Kang's annual base salary plus the average cash bonus during the two full fiscal years immediately preceding the termination. Pursuant to the agreement, Mr. Kang was issued options to purchase 2,580,646 shares of our common stock at an exercise price of \$6.20 per share. The options expire on April 30, 2011 and vest at a rate of 33% per year for three years, with the first 33% vesting on May 21, 2002 and an additional 33% on May 21, 2003 and 2004. In addition, Mr. Kang is prohibited, during his employment with us and for two years after he is no longer employed by us, from soliciting any of our employees or customers. Starting in May 2003, Mr. Kang and other members of senior management took a 10% voluntary decrease in their base salary and returned to full salary in June 2004.

**David Binnie.** On October 1, 2001, we entered into an employment agreement with David Binnie, which provides for his employment as the named Senior Vice President for Human Resources. Mr. Binnie's employment expires September 30, 2006, and his term may continue subsequent to the expiration date on a month-to-month basis at the same salary. His annual salary is \$150,000, and he received 100,000 stock options as part of the employment agreement. In December 2003, Mr. Binnie was named as our Senior Vice President of Administration and Secretary. In September 2005, Mr. Binnie ceased to be an employee of our company pursuant to a separation agreement under

which we agreed to continue to pay to Mr. Binnie an amount equal to his base salary for a period of one year after his separation and agreed that he will be entitled to continue to exercise his stock options through November 30, 2006.



*Young Ham.* On April 15, 2005, we entered into an employment agreement with Young Ham, which provides for his employment as the named Chief Financial Officer. Mr. Ham's employment agreement expires April 15, 2008, and his term may continue subsequent to the expiration date on a month-to-month basis at the same salary. His annual salary is \$150,000, and he received 50,000 stock options as part of the employment agreement.

*Tony Chung.* On November 3, 2004, we entered into an employment agreement with Tony Chung, which provides for his employment as the named Vice President of Finance. Mr. Chung's employment agreement expires November 2, 2007, and his term may continue subsequent to the expiration date on a month-to-month basis at the same salary. His annual salary is \$125,000, and he received 20,000 stock options as part of the employment agreement. Mr. Chung stepped down as an executive officer upon the appointment of Mr. Young Ham as Chief Financial Officer on April 15, 2005.

**Equity Incentive Plans/Equity Compensation Plans**

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Securities authorized for issuance under equity compensation plans as of December 31, 2004 (our last completed fiscal year end) were as follows:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights [a]	Weighted-average exercise price of outstanding options, warrants, and rights [b]	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column [a]) [c]
Equity compensation plans approved by stockholders	6,899,164	\$ 4.95	10,232,001
Equity compensation plans not approved by stockholders	5,362,373	\$ 2.36	
<b>Total</b>	<b>12,261,537</b>		<b>10,232,001</b>

Equity compensation plans not approved by stockholders consist of:

Warrants to purchase up to 563,151 shares issued on March 1, 2004 with an original exercise price of \$3.00 per share and an expiration date of March 1, 2006;

Warrants to purchase up to 893,750 shares issued on June 13, 2005 with an exercise price of \$2.00 per share and an expiration date of June 13, 2010;

Warrants to purchase up to 2,883,965 shares issued on August 2, 2005 with an exercise price of \$2.00 per share and an expiration date of August 2, 2010;

Warrants to purchase up to 322,581 shares issued to John Kang and Ricardo Salas on February 21, 2001 with an exercise price of \$4.65 per share and an expiration date of December 31, 2005;

Warrants to purchase up to 322,581 shares issued to Tjoa Thian Song on February 21, 2001 with an exercise price of \$4.65 per share and an expiration date of December 31, 2005; and

Warrants to purchase up to 376,345 shares issued to Paul Azinger on January 1, 2001 with an exercise price of \$1.16 per share and an expiration date of January 1, 2008.

The number of securities and type of plans available for future issuance of stock options as of October 1, 2005 were as follows:

Plan Name	Authorized	Options and Warrants for Common Shares		Available
		Exercised	Outstanding	
1996 Stock Option Plan	12,903,226	1,974,365	3,386,297	
2002 Equity Incentive Plan	10,000,000		2,163,168	6,477,585
2002 Non-employee Director Stock Option Plan	1,000,000		320,000	370,000
Total Stock Options	23,903,226	1,974,365	5,869,465	6,847,585

#### ***1996 Stock Option Plan***

Our 1996 Stock Option Plan provides for the grant of stock options to employees, directors, and consultants of our company and its affiliates. The purpose of the plan is to retain the services of existing employees, directors, and consultants; to secure and retain the services of new employees, directors, and consultants; and to provide incentives for such persons to exert maximum efforts for our success. The plan provides for the granting to employees of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and for the granting to employees and consultants of nonstatutory stock options. Our board of directors terminated the 1996 Stock Option Plan on April 4, 2002. The termination will not affect any outstanding options under the plan, and all such options will continue to remain outstanding and be governed by the plan.

Options granted under the 1996 Stock Option Plan are generally not transferable by the optionee except by will or the laws of descent and distribution, and each option is exercisable, during the lifetime of the optionee, only by the optionee. Options generally must be exercised within 90 days after the optionee's termination for cause, three months following the end of the optionee's status as an employee or consultant, other than for cause or for death or disability, or within six months after the optionee's termination by disability or twelve months following the optionee's termination by death. However, in no event may an option be exercised later than the earlier of the expiration of the term of the option or ten years from the date of the grant of the option or, where an optionee owns stock representing more than 10% of the voting power, five years from the date of the grant of the option in the case of incentive stock options.

As of October 1, 2005, options to purchase 3,386,297 shares of common stock were outstanding and exercisable at a weighted average price of \$6.14 per share under the 1996 Stock Option Plan. As of October 1, 2005, 1,974,365 shares had been issued upon exercise of options under the plan.



*2002 Equity Incentive Plan*

Our 2002 Equity Incentive Plan, which was adopted by our board of directors and approved by our stockholders in April 2002, provides for the grant of stock options to officers, employees, consultants, and directors of our company and its subsidiaries. The purpose of the plan is to advance the interests of our stockholders by enhancing our ability to attract, retain, and motivate persons who make or are expected to make important contributions to our company and its subsidiaries by providing such persons with equity ownership opportunities and performance-based incentives, thereby better aligning their interests with those of our stockholders. The plan provides for the granting to employees of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and for the granting to employees and consultants of nonstatutory stock options. In addition, the plan permits the granting of stock appreciation rights, or SARs, with or independently of options, as well as stock bonuses and rights to purchase restricted stock. A total of ten million shares of our common stock may be granted under the plan.

The plan is administered by our board of directors or a committee appointed by our board of directors. All members of such a committee must be a non-employee director and an outside director, as defined in the plan. Subject to the limitations set forth in the plan, the administrator has the authority to select the persons to whom grants are to be made, to designate the number of shares to be covered by each stock award, to determine whether an option is to be an incentive stock option or a nonstatutory stock option, to establish vesting schedules, to specify the option exercise price and the type of consideration to be paid upon exercise, and, subject to some restrictions, to specify other terms of stock awards.

The administrator establishes the option exercise price, which in the case of incentive stock options, must be at least the fair market value of the common stock on the date of the grant or, with respect to optionees who own at least 10% of our outstanding common stock, 110% of fair market value. If our common stock is listed and traded on a registered national or regional securities exchange, or quoted on the National Association of Securities Dealers Automated Quotation System, fair market value is the average closing price of a share of our common stock on such exchange or quotation system for the five trading days prior to the date of grant. If our common stock is not traded on a registered securities exchange or quoted in such a quotation system, fair market value is determined in good faith by the administrator.

Options granted under the plan are generally not transferable by the optionee except by will or the laws of descent and distribution, and to certain related individuals with the consent of the administrator. Options generally must be exercised within three months after the optionee's termination of employment for any reason other than disability or death, or within 12 months after the optionee's termination by disability. Options granted under the plan vest at the rate specified in the option agreement. However, in no event may an option be exercised later than the earlier of the expiration of the term of the option or 10 years from the date of the grant of the option, or when an optionee owns stock representing more than 10% of the voting power, five years from the date of the grant of the option in the case of incentive stock options.

Any incentive stock options granted to an optionee which, when combined with all other incentive stock options becoming exercisable for the first time in any calendar year that are held by that person, would have an aggregate fair market value in excess of \$100,000, shall automatically be treated as nonstatutory stock options.

The plan may be amended, altered, suspended or terminated by our board of directors at any time, but no such amendment, alteration, suspension or termination may adversely affect the terms of any option previously granted without the consent of the affected optionee. Unless terminated sooner, the plan will terminate automatically in April 2012.

As of October 1, 2005, there were 2,163,168 outstanding options or stock awards under the plan.

*2002 Non-employee Director Stock Option Plan*

Our 2002 Non-employee Director Stock Option Plan was adopted by our board of directors and by our stockholders in April 2002. We have reserved a total of one million shares of our common stock for issuance under the plan. The option grants under the plan are automatic and nondiscretionary, and the exercise price of the options is equal to 100% of the fair market value of our common stock on the grant date.

Only non-employee directors are eligible for grants under the plan. The plan will provide for an initial grant to a new non-employee director of an option to purchase 50,000 shares of our common stock. Subsequent to the initial grants, each non-employee director will be automatically granted on the first business day of January commencing January 1, 2003, an option to purchase 10,000 shares of our common stock.

The term of the options granted under the plan is 10 years, but the options expire 12 months after the termination of the optionee's status as a director or three months if the termination is due to the voluntary resignation of the optionee. The option grants will vest and become exercisable as to one-fifth of the shares on the date that is one year after the date of grant and an additional one-fifth of the shares subject to the option on a cumulative basis will vest and become exercisable annually thereafter.

As of October 1, 2005, options to purchase 320,000 shares of common stock were outstanding at a weighted average price of \$2.27 per share under the 2002 Non-employee Director Stock Option Plan. There were 24,000 options exercisable under the 2002 Non-employee Director Stock Option Plan as of October 1, 2005.

In October 2005, the non-employee directors of our company were given the opportunity to receive shares of stock under the plan in lieu of past-due director and committee fees that were due to them for periods through September 30, 2005. Such shares were issuable to such directors at an average price of \$1.89 per share. As of October 15, 2005, a total of 92,219 shares will be issued to non-employee directors in lieu of these past-due fees.

The plan will terminate in March 2012, unless our board of directors terminates it sooner.

#### ***401(k) Savings Plan***

We have adopted a tax-qualified employee savings and retirement plan, or 401(k) plan, that covers all of our employees. Pursuant to our 401(k) plan, participants may elect to reduce their current compensation, on a pre-tax basis, by up to 15% of their taxable compensation or of the statutorily prescribed annual limit, whichever is lower, and have the amount of the reduction contributed to the 401(k) plan. The 401(k) plan permits us, in our sole discretion, to make additional employer contributions to the 401(k) plan. However, we do not currently make employer contributions to the 401(k) plan and may not do so in the future. As such, contributions by employees or by us to the 401(k) plan, and the income earned on plan contributions, are not taxable to employees until withdrawn from the 401(k) plan, and we can deduct our contributions, if any, at the time they are made.

**PRINCIPAL STOCKHOLDERS**





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The following table sets forth certain information regarding the beneficial ownership of our common stock as of October 1, 2005 and as adjusted to reflect the sale of the common stock being registered for resale under this prospectus by:

each person known by us to be a beneficial owner of more than 5.0% of our outstanding common stock;

each of our directors;

each of our named executive officers; and

all directors and executive officers as a group.

The amounts and percentage of common stock beneficially owned are reported on the basis of the regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or to direct the voting of such security, or investment power, which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed a beneficial owner of the same securities and a person may be deemed a beneficial owner of securities as to which he has no economic interest. The number of shares of common stock outstanding used in calculating the percentage for each listed person includes the shares of common stock underlying options or warrants held by such person that are, or within 60 days after the date of this prospectus will become, exercisable, but excludes shares of common stock underlying options or warrants held by any other person (whether or not exercisable within 60 days).

The amounts and percentage of common stock beneficially owned after the offering are calculated based on (i) 57,101,630 shares of common stock outstanding assuming the issuance of 9,352,125 shares of common stock upon the conversion of our 6% Senior Secured Notes Due July 2007 and our 7% Senior Secured Convertible Notes Due August 2007 and the issuance of 5,585,384 shares of common stock upon the exercise of warrants and (ii) the assumption that all of the shares are being registered for resale under this prospectus have been sold.

Name of Beneficial Owner	Shares	Percent of Class
John Kang(1)	5,517,554	10%
James Kang(2)	6,266,033	11%
William Johnson(3)	1,195,650	2%
Dean Tanella(4)	36,120	*
Vincent Addonisio(5)	14,000	*
Bobb Biehl(6)	27,929	*
CK Cho(7)	277,686	*
Tjoa Thian Song(8)	4,331,104	8%
Young Ham(9)	10,000	*
All directors and executive officers as a group (8 persons)	13,344,972	23%

\* Less than one percent.

(1) As of August 22, 2003, John Kang was named Chairman of our board of directors, in addition to already serving as Chief Executive Officer and President. As of January 14, 2005, John Kang ceased to be our Chief Executive Officer and President until May 5, 2005 when he was reappointed as Chief Executive Officer and President. The beneficial shares include:

(a) 1,612,904 shares that are issuable pursuant to outstanding stock options that are exercisable currently or within 60 days of October 1, 2005. Does not include 50,000 shares that are issuable pursuant to outstanding stock options that are not exercisable within 60 days;

(b) 322,581 shares issuable pursuant to a warrant held jointly by John Kang and Ricardo Salas (a former director of the company) that are currently exercisable; and

(c) 132,400 shares held by Mr. Kang's minor children.

(2) Includes 2,861,291 shares issuable pursuant to outstanding stock options that are exercisable currently or within 60 days of October 1, 2005. Also includes 969 shares held by James Kang's minor children. Does not include 16,129 shares issuable pursuant to outstanding stock options that are not exercisable currently or within 60 days of December 31, 2004.

(3) Does not include 60,000 shares that are issuable pursuant to outstanding stock options that are not exercisable within 60 days.

- (4) Includes 16,130 shares held by Mr. Tanella's investment firm, HarborLight Diversified Fund, LP. Also, includes 1,390 shares held by Mr. Tanella's family. Does not include 50,000 shares that are issuable pursuant to outstanding stock options that are not exercisable within 60 days. Includes 10,000 shares that are issuable pursuant to outstanding stock options that are exercisable within 60 days.
- (5) Does not include 86,000 shares that are issuable pursuant to outstanding stock options that are not exercisable within 60 days.
- (6) Does not include 50,000 shares that are issuable pursuant to outstanding stock options that are not exercisable within 60 days.
- (7) Includes 109,678 shares held by Mr. Cho's Investment firm, CB. Also includes 92,584 warrants held by CB that are currently exercisable. Does not include 50,000 shares that are issuable pursuant to outstanding stock options that are not exercisable within 60 days.
- (8) 3,874,585 of these shares are held of record by a revocable grantor trust established by Mr. Tjoa for himself and his family members. Mr. Tjoa continues to beneficially own all such shares. Includes 322,581 shares issuable pursuant to a currently exercisable warrant.
- (9) Does not include 127,500 shares that are issuable pursuant to outstanding stock options that are not exercisable within 60 days.

**DESCRIPTION OF CAPITAL STOCK**



**General**





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We are authorized to issue up to 100,000,000 shares of common stock, par value \$0.001 per share, of which 41,609,652 shares were issued and outstanding as of October 1, 2005. We are also authorized to issue up to 10,000,000 shares of preferred stock, par value \$0.001 per share, of which no shares were issued and outstanding as of October 1, 2005.

### **Common Stock**



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The holders of our common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Subject to preferences that may be applicable to any outstanding preferred stock, the holders of common stock are entitled to receive ratably any dividends that may be declared from time to time by the board of directors out of funds legally available for that purpose. In the event of our liquidation, dissolution or winding up, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock then outstanding. The common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and nonassessable, and the shares of common stock to be issued upon the closing of this offering will be fully paid and nonassessable.

### **Preferred Stock**



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Our board of directors has the authority, without action by our stockholders, to designate and issue up to 10,000,000 shares of preferred stock in one or more series. The board of directors may also designate the rights, preferences, and privileges of each series of preferred stock, any or all of which may be greater than the rights of the common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of the common stock until the board of directors determines the specific rights of the holders of the preferred stock. However, these effects might include restricting dividends on the common stock; diluting the voting power of the common stock; impairing the liquidation rights of the common stock; and delaying or preventing a change in control of our company without further action by the stockholders. We have no present plans to issue any shares of preferred stock.

### **Convertible Notes**



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As of October 1, 2005, we had convertible promissory notes outstanding in the aggregate principal amount of \$12.7 million. The notes consist of \$2.8 million in aggregate principal amount of 6% Senior Convertible Notes Due July 2007 (the July 2007 Notes ) plus \$9.9 million in aggregate principal amount of 7% Convertible Secured Promissory Notes due August 2007 (the August 2007 Notes ).

The July 2007 Notes were issued in a private placement on July 29, 2004 and have a maturity date of July 29, 2007. The July 2007 Notes are convertible into shares of our common stock at a conversion price of \$1.00 per share, subject to specified anti-dilution adjustments. Under the July 2007 Notes, the noteholders have the right to call for repayment of such notes prior to maturity at any time after the second anniversary of the date of the issuance of the notes. The July 2007 Notes bear interest at a rate equal to 6% per annum, with interest being payable in cash on a quarterly basis.

The August 2007 Notes were issued in a private placement on August 2, 2005 and have a maturity date of August 2, 2007. The August 2007 Notes are convertible into shares of our common stock at a conversion price of \$2.00 per share, subject to specified anti-dilution adjustments. The August 2007 Notes bear interest at a rate equal to 7% per annum, with interest being payable in cash on a quarterly basis.

**Warrants and Special Stock Option**





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As of October 1, 2005, we had warrants outstanding to purchase up to 4,340,866 shares of our common stock. Of these warrants:

Warrants to purchase up to 563,151 shares were issued on March 1, 2004 at an original exercise price of \$3.00 per share and with an expiration date of March 1, 2006;

Warrants to purchase up to 893,750 shares were issued on June 13, 2005 at an exercise price of \$2.00 per share and with an expiration date of June 13, 2010; and

Warrants to purchase up to 2,883,965 shares were issued on August 2, 2005 at an exercise price of \$2.00 per share and with an expiration date of August 2, 2010.

In each of the foregoing transactions, the warrants were issued in private placements and were issued to the purchasers of convertible notes in such private placements, as well as to placement agents in such transactions.

On February 21, 2001, we issued a warrant to purchase shares of our common stock jointly to John Kang and Ricardo Salas. This warrant was issued in connection with the issuance to Mr. Kang and Mr. Salas of a \$1,500,000 subordinated, unsecured promissory note that was repaid by us in May 2002. 322,581 shares are issuable under this warrant at an exercise price of \$4.65 per share. This warrant expires on December 31, 2005, and as of October 15, 2005, no portion of this warrant has been exercised.

On February 21, 2001, we issued a warrant to purchase shares of our common stock to Tjoa Thian Song. This warrant was issued in connection with the issuance to Mr. Tjoa of a \$1,500,000 subordinated, unsecured promissory note that was repaid by us in May 2002. 322,581 shares are issuable under this warrant at an exercise price equal to \$4.65 per share. This warrant expires on December 31, 2005, and as of October 15, 2005, no portion of this warrant has been exercised.

On January 1, 2001, we granted Paul Azinger, a professional golf player, a non-qualified stock option to purchase up to 1,021,507 shares of our common stock at an exercise price of \$1.16 per share. This option was granted to Mr. Azinger in consideration of Mr. Azinger entering into an endorsement agreement with our Liquidmetal Golf subsidiary, although the endorsement agreement was terminated effective January 1, 2003. As a result of the termination of the endorsement agreement, Mr. Azinger's option immediately vested as to 376,345 shares upon such termination, and the option was terminated as to the remaining shares. This stock option will expire on January 1, 2008, and as of October 15, 2005, no portion of this option has been exercised.

### **Registration Rights**



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On August 2, 2005, we entered into an amended and restated registration rights agreement with the holders of the July 2007 Notes, the holders of the August 2007 Notes, and the holders of the above-described outstanding warrants. This amended and restated registration rights agreement replaced all other registration rights agreements previously entered into by us in connection with the private sale by us of convertible notes and warrants. Under the amended and restated registration rights agreement, we are required to file a resale registration statement for the shares underlying all of our outstanding convertible notes and warrants, as described above, by October 31, 2005, to enable the resale of such shares by the selling stockholders on a delayed or continuous basis under Rule 415 of the Securities Act. We are then required to cause such registration statement to become effective within 60 days after we receive the first written comments on the registration statement from the SEC, or if the SEC notifies us that it will not review the registration statement, within five days after such notification. We will be subject to certain monetary penalties, as set forth in the registration rights agreement, if the registration statement is not filed or does not become effective on a timely basis. Specifically, if we do not file the registration statement on a timely basis, we will be obligated to pay a late filing fee to the selling stockholders in the amount of 3% of the warrant exercise price on each of the warrants held by them plus 3% of the principal amount of the outstanding notes held by them.

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This fee will be payable for each period of 30 business days that the filing of the registration statement is made past the required filing date, and the payments will be due 10 business days following the end of each 30-day period. If the registration statement has not been declared effective by the required effective date, we will be obligated to pay a monthly late registration fee to the selling stockholders in the amount of 2% of the aggregate warrant exercise prices and aggregate note principal amounts for the first 30 business days after the required effective date, and 1% for each 30-business day period thereafter until the registration statement is declared effective. Notwithstanding the foregoing, the late filing fees and late registration fees will not exceed 18% of the aggregate warrant exercise prices and aggregate note principal amounts.

On December 6, 2005, we received a letter from a representative of the holders of the August 2007 Notes demanding the payment of a late filing fee by us for the period following October 31, 2005, but under the terms of the amended and restated registration rights agreement, we do not believe that we are obligated to pay any late filing fees unless and until we fail to file the registration statement by December 13, 2005, which is the last day of the first 30-business day period following October 31, 2005.

Pursuant to the above-described non-qualified stock option granted to Paul Azinger, Mr. Azinger has piggyback registration rights with respect to any shares of common stock that Mr. Azinger receives upon the exercise of his stock option. Mr. Azinger's stock option agreement provides that, if we propose to register additional shares of common stock under the Securities Act of 1933, whether for our own account or the account of another stockholder, Mr. Azinger is entitled to receive notice of that registration and to include his shares in the registration, subject to limitations described in his stock option agreement. These registration rights will not apply to a registration of securities issued under an employee benefit plan or a registration incident to a corporate merger or reorganization. These registration rights expire on the date on which Mr. Azinger can sell all of his registrable securities under Rule 144 under the Securities Act of 1933 without any volume limitations. As a result of these registration rights, Mr. Azinger is a selling stockholder in this prospectus.

All of the above registration rights are subject to conditions and limitations, among them the right of the underwriters of any offering to limit the number of shares of common stock held by these security holders to be included in the registration. We are generally required to bear all of the expenses of all registrations, except underwriting discounts and selling commissions. Registration of the shares of common stock held by security holders with registration rights would result in these shares becoming freely tradeable without restriction under the Securities Act of 1933 immediately upon effectiveness of this registration. Other than the above-described registration rights, we have not granted any registration rights with respect to any shares of our capital stock.

### **Stock Options**



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As of October 1, 2005, we had stock options outstanding under our equity incentive plans to purchase up to 8,090,973 shares of our common stock. Of these options, options to purchase 6,212,542 shares of common stock were exercisable at October 1, 2005 at a weighted-average exercise price of \$4.45 per share.

### **Anti-Takeover Effect**





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Provisions of Delaware law and our certificate of incorporation and amended bylaws could make the acquisition of our company through a tender offer, a proxy contest or other means more difficult and could make the removal of incumbent officers and directors more difficult. We expect these provisions to discourage coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of our company to first negotiate with our board of directors. We believe that the benefits provided by our ability to negotiate with the proponent of an unfriendly or unsolicited proposal outweigh the disadvantages of discouraging these proposals. We believe the negotiation of an unfriendly or unsolicited proposal could result in an improvement of its terms.

*Delaware Law.* Upon the closing of this offering, we will be subject to Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years following the date the person became an interested stockholder, unless:

prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

the stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (a) shares owned by persons who are directors and also officers, and (b) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

on or subsequent to the date of the transaction, the business combination is approved by the board and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66% of the outstanding voting stock which is not owned by the interested stockholder.

Generally, a business combination for these purposes includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. An interested stockholder for these purposes is a person who, together with affiliates and associates, owns or, within three years prior to the determination of interested stockholder status, did own 15% or more of a corporation's outstanding voting securities. We expect the existence of this provision to have an anti-takeover effect with respect to transactions our board of directors does not approve in advance. We also anticipate that Section 203 may also discourage attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

*Certificate of Incorporation and Bylaw Provisions.* Our certificate of incorporation to be in effect provides for our board of directors to be divided into three classes serving staggered terms. Approximately one-third of the board of directors will be elected each year. The provision for a classified board could prevent a party who acquires control of a majority of the outstanding voting stock from obtaining control of the board of directors until the second annual stockholders meeting following the date the acquiring party obtains the controlling stock interest. The classified board provision could discourage a potential acquiror from making a tender offer or otherwise attempting to obtain control of our company and could increase the likelihood that incumbent directors will retain their positions. Our bylaws also provides that directors may be removed with cause by the affirmative vote of the holders of the outstanding shares of common stock.

Our bylaws establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to the board of directors. At an annual meeting, stockholders may only consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of the board of directors. Stockholders may also consider a proposal or nomination by a person who was a stockholder of record on the record date for the meeting, who is entitled to vote at the meeting and who has given to our Secretary timely written notice, in proper form, of his or her intention to bring that business before the meeting. The bylaws do not give the board of directors the power to approve or disapprove stockholder nominations of candidates or proposals regarding other business to be conducted at a special or annual meeting of the stockholders. However, our bylaws may have the effect of precluding the conduct of business at a meeting if the proper procedures are not followed. These provisions may also discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of our company.

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Under Delaware law, a special meeting of stockholders may be called by the board of directors or by any other person authorized to do so in the certificate of incorporation or the bylaws. Our certificate of incorporation authorizes a majority of our board of directors to call a special meeting of stockholders, and it requires the President or Secretary to call a special meeting upon the written request of stockholders who own an aggregate of least 25% of the outstanding shares of voting stock. Because our stockholders owning less than an aggregate of 25% of our voting stock do not have the right to call a special meeting, such stockholders could not force stockholder consideration of a proposal over the opposition of the board of directors by calling a special meeting of

stockholders prior to such time as a majority of the board of directors believed or the chief executive officer believed the matter should be considered or until the next annual meeting provided that the requestor met the notice requirements. The restriction on the ability of stockholders to call a special meeting means that a proposal to replace the board also could be delayed until the next annual meeting.

**Transfer Agent and Registrar**



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The Transfer Agent and Registrar for the common stock is American Stock Transfer & Trust Company, New York, New York.

**PLAN OF DISTRIBUTION**





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We are registering the shares of common stock issuable upon conversion of our outstanding convertible notes, the exercise of our outstanding warrants, and the exercise a non-qualified stock option to permit the resale of these shares by the holders of such notes and warrants from time to time after the date of this prospectus. We will not receive any of the proceeds from the sale by any selling stockholder of these shares of common stock. We will bear all fees and expenses incident to our obligation to register the shares of common stock, except that a selling stockholder will pay all applicable underwriting discounts and selling commissions, if any.

Any selling stockholder may sell all or a portion of the common stock beneficially owned by it and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the common stock is sold through underwriters or broker-dealers, then the selling stockholder will be responsible for underwriting discounts or commissions or agent's commissions. The common stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale, or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions,

- (1) on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale,
- (2) in the over-the-counter market,
- (3) in transactions otherwise than on these exchanges or systems or in the over-the-counter market,
- (4) through the writing of options, whether the options are listed on an options exchange or otherwise,
- (5) through the settlement of short sales;
- (6) through a combination of such methods of sale; or
- (7) through any other method permitted pursuant to applicable law.

If a selling stockholder effects such transactions by selling shares of common stock to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts, concessions or commissions from the selling stockholder or commissions from purchasers of the shares of common stock for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in excess of those customary in the types of transactions involved). In connection with sales of the common stock or otherwise, a selling stockholder may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the common stock in the course of hedging in positions they assume. A selling stockholder may also sell shares of common stock short and deliver shares of common stock covered by this prospectus to close out short positions. Each selling stockholder may also loan or pledge shares of common stock to broker-dealers that in turn may sell such shares.

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Each selling stockholder may pledge or grant a security interest in some or all of the convertible senior secured notes or shares of common stock owned by it and, if it defaults in the performance of its secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time pursuant to this prospectus or any amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933, as amended, amending, if necessary, the list of selling stockholders to include the pledgee, transferee or other successors-in-interest as selling stockholders under this prospectus. Each selling stockholder also may transfer and donate the shares of common stock in other circumstances in which case the transferees, donees, pledgees or other successors-in-interest will be the selling beneficial owners for purposes of this prospectus.

Each selling stockholder and any broker-dealer participating in the distribution of the shares of common stock may be deemed to be underwriters within the meaning of the Securities Act, and any commission paid, or any discounts or concessions allowed, to any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act. At the time a particular offering of the shares of common stock is made, a prospectus supplement, if required, will be distributed that will set forth the aggregate amount of shares of common stock being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from each selling stockholder and any discounts, commissions or concessions allowed or reallocated or paid to broker-dealers.

Under the securities laws of some states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the shares of common stock may not be sold unless the shares have been registered or qualified for sale in the state or an exemption from registration or qualification is available and is complied with.

There can be no assurance that any selling stockholder will sell any or all of the shares of common stock registered pursuant to the shelf registration statement of which this prospectus forms a part.

Each selling stockholder and any other person participating in such distribution will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including, without limitation, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the shares of common stock by the selling stockholders and any other participating person. Regulation M may also restrict the ability of any person engaged in the distribution of the shares of common stock to engage in market-making activities with respect to the shares of common stock. All of the foregoing may affect the marketability of the shares of common stock and the ability of any person or entity to engage in market-making activities with respect to the shares of common stock.

We have agreed to pay all expenses in connection with this offering, but not including underwriting discounts, concessions, commissions or fees of the selling stockholders, estimated to be approximately \$        in total, including, without limitation, Securities and Exchange Commission filing fees and expenses. We will indemnify the selling stockholders against liabilities, including some liabilities under the Securities Act, in accordance with the registration rights agreement, or the selling stockholders will be entitled to contribution. We may be indemnified by a selling stockholder against civil liabilities, including liabilities under the Securities Act, that may arise from any written information furnished to us by the selling stockholder specifically for use in this prospectus, in accordance with the registration rights agreement, or we may be entitled to contribution.

Once sold under the shelf registration statement, of which this prospectus forms a part, the shares of common stock will be freely tradable in the hands of persons other than our affiliates.

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**



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In June 2003, we entered into an exclusive, ten-year license agreement with LLPG, Inc. ( LLPG ), a corporation headed by a former director of our company. Under the terms of the agreement, LLPG has the right to commercialize Liquidmetal alloys, particularly precious-metal based compositions, in jewelry and high-end luxury product markets. In turn, we will receive royalty payments over the life of the contract on all Liquidmetal products produced and sold by LLPG. In conjunction with its technology licensing contract, LLPG purchased two proprietary Liquidmetal alloy melting machines and three proprietary Liquidmetal alloy casting machines for a total purchase price of \$2,000,000.

We are a party to a license agreement with California Institute of Technology ( Caltech ) under which we exclusively license from Caltech certain inventions and technology relating to amorphous alloys. Professor William Johnson, a member of our board of directors, is a professor at Caltech, and substantially all of the amorphous alloy technology licensed to us under the Caltech license agreement was developed in Professor Johnson's Caltech laboratory. During 2003, we paid approximately \$50,000 to Caltech representing the second and final installments on the approximately \$150,000 aggregate fees related to this agreement. Additionally, we reimburse Caltech for laboratory expenses incurred by Professor Johnson's Caltech laboratory, which during the years ended December 31, 2004 and 2003, amounted to \$0 and approximately \$22,000, respectively.

A company managed and partially owned by one of our former directors formerly provided technical support services and computer equipment to us. During the year ended December 31, 2003, we incurred approximately \$20,000 of expenses and equipment purchases related to this arrangement. There were no expenses and payables to this company as of December 31, 2004.

We are a party to a consulting agreement with Chitnis Consulting, Inc., which is owned 100% by Shekhar Chitnis, a former director and executive officer of our company. Under this agreement, we have engaged Chitnis Consulting to provide consulting services on an as-needed basis through December 31, 2005. During 2003, we incurred approximately \$50,000 in consulting fees from Chitnis Consulting and incurred approximately \$54,000 as of December 31, 2004.

Soo Buchanan, the sister of John Kang and James Kang, was employed by our company and was paid aggregate compensation of approximately \$76,000 and \$43,000 as of December 31, 2003 and 2004. Additionally, Otis Buchanan, the husband of Ms. Buchanan, was employed by the Company and was paid aggregate compensation of approximately \$90,000 and \$54,000 as of December 31, 2003 and 2004, respectively.

In November 2004, we entered into an agreement with John Kang, our Chairman, President, and Chief Executive Officer, in which Mr. Kang agreed that certain stock transactions by him in 2002 involving our common stock should have resulted in a liability under Section 16(b) of the Securities Exchange Act of 1934, as amended ( Section 16(b) ). These transactions include Mr. Kang's private sale of 285,715 shares of his personal Liquidmetal Technologies common stock to Growell Metal Co., Ltd. in February 2002, prior to our initial public offering. They also include Mr. Kang's subsequent indirect purchase and disposition of Liquidmetal Technologies common stock in order to satisfy a personal agreement Mr. Kang made to Growell Metal in February 2002 regarding the guaranteed minimum value of the stock purchased by Growell Metal in February 2002 (the purchases and dispositions incident to this agreement occurred in August and November 2002, respectively). Lastly, the transactions include open-market purchases of an aggregate of 89,300 shares of our common stock made by Mr. Kang in August 2002.

The Audit Committee of our board of directors conducted an independent inquiry into the above-described transactions with the aid of independent legal counsel and, as a result of such inquiry, the Audit Committee concluded that the transactions should have resulted in a liability to us any under Section 16(b) in the amount of approximately \$302,000. Mr. Kang has acknowledged this liability, and in an agreement negotiated between Mr. Kang and the Audit Committee and approved by the full board of directors, Mr. Kang will pay this liability through periodic installments in 2005 and 2006. As a result, we accrued the \$302,000 receivable in other assets and other income as of December 31, 2004. The above-described transactions involving Growell Metal were reported on a new Form 4 filed by Mr. Kang on November 15, 2004, and the open-market purchases were previously reported on a timely basis in August 2002.



**CHANGES OF ACCOUNTANTS**





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On May 6, 2004, Deloitte & Touche LLP ( Deloitte ), the Company's independent auditors, notified the Company that they were resigning from the client-auditor relationship with the Company effective as of that date.

Deloitte was engaged by the Company to serve as the Company's independent auditors for the fiscal year ended December 31, 2003. The reports of Deloitte with respect to the Company's financial statements for the fiscal years ended December 31, 2002 and 2001 contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. During the fiscal years ended December 31, 2003 and 2002 and the period from December 31, 2003 through the date of Deloitte's resignation, there were no disagreements between the Company and Deloitte on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Deloitte, would have caused Deloitte to make reference to the subject matter of the disagreements in connection with its report on the Company's financial statements for such year.

The Company previously announced that it expected to restate revenues and results of operations for the third and fourth quarters of 2002 and the first quarter of 2003 in connection with the Company's sales of alloy melting and casting equipment during such quarters to Growell Metal Co., Ltd., a South Korea metals processing company ( Growell ). The Company's Audit Committee conducted an internal inquiry at the request of Deloitte into the Company's transactions with Growell and found that the original revenue recognition on the Growell equipment sales did not take into account all relevant documentation relating to the transactions. The Company announced in January 2004 that it entered into a dispute settlement agreement with Growell to resolve various outstanding claims between the parties relating to the Company's transactions with Growell.

In connection with the Audit Committee's inquiry into the Growell equipment sales and dispute settlement, the Audit Committee also reviewed the facts and circumstances relating to a personal stock transaction between the Company's CEO and Growell. In this transaction, as reported by the CEO, the CEO undertook a private sale of personal shares of the Company's common stock to Growell in February 2002, prior to the Company's initial public offering. As part of the inquiry, the CEO reported that this sale included a previously undisclosed personal agreement to ensure that the purchase price of the stock purchased by Growell would be at a thirty percent discount to the Company's initial public offering price, and he also provided information regarding his fulfillment of this personal agreement.

As of May 6, 2004, certain details of the foregoing transactions had not been resolved to Deloitte's satisfaction. As a result of the expected restatements and these unresolved issues, the Company's previously issued financial statements for the year ended December 31, 2002 and Deloitte's audit report thereon, as well as the Company's quarterly financial statements for the third quarter of 2002 and the first, second, and third quarters of 2003 (and Deloitte's related review reports thereon), should no longer be relied upon.

Deloitte communicated to the Company that it was unwilling to continue to rely on the representations of the Company's CEO. Deloitte had also previously communicated to the Company that, in light of the facts and circumstances surrounding the expected restatement, there were material weaknesses in the Company's internal accounting controls relating to the execution, administration, and accounting for contracts, particularly in the Company's South Korean operations. The Company has taken and is continuing to take steps to improve these internal controls.

Other than the foregoing, none of the reportable events described under Item 304(a)(1)(v) of Regulation S-K occurred within the two most recent fiscal years of the Company ended December 31, 2003 and 2002 or within the subsequent interim period through the date of Deloitte's resignation.

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The Company's Audit Committee discussed with Deloitte the matters disclosed above regarding Deloitte's resignation. The Company authorized Deloitte to respond fully to the inquiries of the Company's successor accountant concerning the matters disclosed above.

On May 21, 2004, the Company's Audit Committee appointed Stonefield Josephson, Inc. ( Stonefield ) as the Company's independent auditors. During the two fiscal years prior to the engagement of Stonefield and through the date of the commencement of their engagement, the Company did not consult Stonefield regarding (i) the application of accounting principles to a specific transaction, either completed or proposed, or the type of audit opinion that may be rendered on the Company's financial statements, and neither a written report nor oral advice was provided to the Company that Stonefield Josephson concluded was an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions thereto) or a reportable event (as defined in Item 304(a)(1)(v) of Regulation S-K).

On November 23, 2005, Stonefield, the Company's independent registered public accounting firm, notified the Company that Stonefield would resign as the Company's independent registered public accounting firm upon the completion of Stonefield's review of the Company's interim unaudited financial statements as of and for the three and nine month periods ended September 30, 2005. The Company's interim unaudited financial statements as of and for the three and nine month periods ended September 30, 2005 were included in the Company's report on Form 10-Q for the third quarter ended September 30, 2005 filed with the SEC on December 1, 2005, and the Company's relationship with Stonefield was therefore effectively terminated as of December 1, 2005. The Company's Audit Committee has commenced an immediate search for a new registered independent public accounting firm.

The reports of Stonefield with respect to the Company's financial statements for the fiscal years ended December 31, 2003 and 2004 contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles, except for an explanatory paragraph regarding the Company's ability to continue as a going concern contained in Stonefield's report on the Company's financial statements and for a disclaimer of opinion made by Stonefield with respect to the Company's internal controls over financial reporting and the Company's assessment of those controls as of December 31, 2004. The disclaimer of opinion, together with a description of the circumstances surrounding the disclaimer, is set forth in Item 9A of the amended Form 10-K filed by the Company with the SEC on May 10, 2005.

From May 21, 2004, the date Stonefield was appointed as the Company's independent auditors, through the date of Stonefield's resignation, there were no disagreements between the Company and Stonefield on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Stonefield, would have caused Stonefield to make reference to the subject matter of the disagreements in connection with its report on the Company's financial statements for such years.

There were no reportable events as described under Item 304(a)(1)(v) of Regulation S-K occurring within the two most recent fiscal years of the Company ended December 31, 2004 and 2003 or within the subsequent interim period through the date of Stonefield's resignation, except as follows:

Stonefield has advised the Company that there are material weaknesses in its internal controls, mainly related to internal controls of its South Korean operations. Therefore, Stonefield has expanded the scope of its review of the interim unaudited financial statements as of and for the three and nine month periods ended September 30, 2005. The material deficiencies in the Company's internal controls over financial reporting include the following:

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a) Lack of adequate segregation of duties in the Company's South Korean operations in accounts receivable, involving cash receipts, shipping, delivery of products, and customer invoice reconciliations;

b) Lack of adequate segregation of duties in the Company's Coatings Division in Texas in order processing and invoicing;

- c) Lack of adequate controls and documentation in the Company's South Korean operations to evidence proper customer invoicing and revenue recognition in the proper period;
- d) Lack of progress in documenting, assessing and evaluating the Company's internal controls in our South Korean Operations evidenced by aforementioned deficiencies of which remediations will need to be completed as of December 31, 2005.
- e) Lack of sufficient controls over internal access to the Company's SAP system of reporting by unauthorized users; and
- f) The manual performance of numerous procedures that could be automated using current reporting systems;

In connection with the foregoing, Stonefield has also advised the Company that it believes that the Company has made insufficient progress in documenting, assessing, and evaluating the Company's internal controls over financial reporting for purposes of timely complying with Section 404 of the Sarbanes-Oxley Act of 2002.

The Company's Audit Committee has discussed with Stonefield the matters disclosed above regarding Stonefield's resignation. The Company has authorized Stonefield to respond fully to the inquiries of the Company's successor accountant concerning the matters disclosed above.

#### **UNITED STATES FEDERAL INCOME TAX CONSIDERATION**

**General**

The following is a summary of certain material United States federal income tax considerations related to the ownership and disposition of our common stock that may be relevant to you if you acquire our common stock pursuant to this offering. This summary is based on the Internal Revenue Code of 1986, as amended (the Code), existing and proposed Treasury regulations promulgated under the Code and administrative and judicial interpretations of the Code, all as of the date of this prospectus and all of which are subject to change, possibly with retroactive effect. The Internal Revenue Service is referred to as IRS in this summary.

This summary discusses only the tax consequences to the investors who purchase our common stock pursuant to this offering and does not discuss the tax consequences applicable to subsequent purchasers of our common stock. This summary deals only with common stock held as capital assets within the meaning of Section 1221 of the Code. It does not discuss all of the tax considerations that may be relevant to holders of our common stock in light of their particular circumstances or to holders of common stock subject to special rules, such as financial institutions, regulated investment companies, holders subject to the alternative minimum tax, insurance companies, pension funds, tax-exempt organizations, partnerships or other pass-through entities, dealers in securities or currencies, traders who elect to mark to market their securities or persons holding the common stock as part of a hedging or constructive sale transaction, straddle, conversion transaction, or other integrated transaction, or holders of the common stock whose functional currency is not the United States dollar or persons who acquired our common stock in compensatory transactions. In addition, this summary does not discuss any United States tax consequences to a Non-U.S. Holder (as defined below) that is a controlled foreign corporation, passive foreign investment company, foreign personal holding company, corporation that accumulates earnings to avoid U.S. federal income tax, or a U.S. expatriate. This summary does not address any state, local or non-United States tax considerations, or tax considerations under other federal tax laws (such as estate and gift tax laws).

We have not requested a ruling from the IRS on the tax consequences of owning our common stock. As a result, the IRS could disagree with portions of this discussion. Persons considering the purchase of our common stock should consult with their own tax advisors about the application of the United States federal income tax laws to their particular situations, as well as any tax considerations under other United States federal tax laws, and the laws of any state, local or foreign jurisdiction.

As used in this prospectus, the term **U.S. Holder** means a beneficial owner of common stock that is, for United States federal income tax purposes:

a citizen or individual resident of the United States;

a corporation, partnership or other entity treated as a corporation, created in or under the laws of the United States or of any political subdivision thereof;

an estate the income of which is subject to United States federal income taxation regardless of its source; or

a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or a trust that has a valid election in effect under applicable United States Treasury Regulations to be treated as a U.S. person.

As used in this prospectus, the term **Non-U.S. Holder** means a beneficial owner of common stock that is an individual, corporation, trust or estate that is not a U.S. Holder.

If an entity treated as a partnership for U.S. federal income tax purposes holds shares of common stock, the tax treatment of a partner will generally depend on the status of the partner and upon the activity of the partnership. If you are a partner of a partnership holding shares of common stock, we suggest you consult your own tax advisor.

#### **U.S. Holders**



***Distributions to U.S. Holders***

If distributions are paid on the shares of our common stock (other than distributions in liquidation and distributions in redemption of our common stock), these distributions generally will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, and will constitute a tax-free return of capital that is applied against your tax basis in the common stock to the extent these distributions exceed those earnings and profits. Distributions in excess of our current and accumulated earnings and profits and your tax basis in the common stock will be treated as a gain from the sale or exchange of the common stock, the treatment of which is discussed below. For the tax years 2004 through 2008, non-corporate U.S. Holders are subject to a maximum tax rate on dividends equal to 15%, which corresponds to the maximum tax rate for long-term capital gains; however, certain holding period requirements and other limitations may apply. Under current law for tax years beginning after December 31, 2008, dividends will be taxed at the same rate as other items of ordinary income. U.S. Holders that are corporations may be eligible for a dividend-received deduction in respect of a dividend distribution by us.

***Gain on Disposition of Common Stock by U.S. Holders***

A U.S. Holder will recognize gain or loss on the sale, exchange or other taxable disposition of our common stock to the extent of the difference between the amount realized on such sale, exchange or other disposition and the holder's adjusted tax basis in such shares. Such gain or loss generally will constitute capital gain or loss, and will be long-term capital gain or loss, if the holder has held such shares for more than one year at the time of sale or disposition. Non-corporate U.S. Holders are subject to a maximum tax rate of 15% on long-term capital gain (increased to 20% for years after 2008). The deductibility of capital losses by a U.S. Holder is subject to limitations.

**Non-U.S. Holders**



***Distributions to Non-U.S. Holders***

Dividends paid to a Non-U.S. Holder that are not effectively connected with the conduct of a U.S. trade or business of the Non-U.S. Holder generally will be subject to U.S. federal withholding tax at a 30% rate or, if an income tax treaty applies and certain certification requirements described below are satisfied, a lower rate specified by the treaty. A Non-U.S. Holder who wishes to claim the benefits of an applicable income tax treaty will be required to provide the appropriate IRS Form W-8 certifying its entitlement to benefits under an income tax treaty. Non-U.S. Holders should consult their tax advisors regarding their entitlement to benefits under a relevant tax treaty.

Withholding generally is imposed on the gross amount of a distribution, regardless of whether we have sufficient earnings and profits to cause the distribution to be a dividend for U.S. federal income tax purposes. However, we may elect to withhold on less than the gross amount of the distribution if we determine that the distribution is not paid out of our current or accumulated earnings and profits, based on our reasonable estimates.

A Non-U.S. Holder eligible for a reduced rate of U.S. federal withholding tax under a tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for a refund together with the required information with the IRS.

Dividends that are effectively connected with a Non-U.S. Holder's conduct of a trade or business within the United States and, if a tax treaty applies, attributable to a Non-U.S. Holder's U.S. permanent establishment, are exempt from U.S. federal withholding tax if the Non-U.S. Holder furnishes to us or our paying agent the appropriate IRS form and other applicable requirements are met. However, dividends exempt from U.S. federal withholding tax because they are effectively connected or attributable to a U.S. permanent establishment under an applicable tax treaty are subject to U.S. federal income tax on a net income basis at the regular graduated U.S. federal income tax rates. Any such effectively connected dividends received by a foreign corporation may, under certain circumstances, be subject to an additional branch profits tax at a 30% rate or a lower rate specified by an applicable tax treaty.

***Gain on Disposition of Common Stock by Non-U.S. Holders***

Subject to the discussion below concerning backup withholding, a Non-U.S. Holder generally will not be subject to U.S. federal income tax with respect to gain recognized on a sale or other disposition of our common stock unless one of the following applies:

The gain is effectively connected with a Non-U.S. Holder's conduct of a trade or business within the United States and, if a tax treaty applies, the gain is attributable to a Non-U.S. Holder's U.S. permanent establishment. In such case, the Non-U.S. Holder will, unless an applicable tax treaty provides otherwise, generally be taxed on its net gain derived from the sale at regular graduated U.S. federal income tax rates, and in the case of a foreign corporation, may also be subject to the branch profits tax described above;

A Non-U.S. Holder who is an individual holds our common stock as a capital asset, is present in the United States for 183 or more days in the taxable year of the sale or other disposition, and certain other conditions are met. In such a case, the Non-U.S. Holder will be subject to a flat 30% tax on the gain derived from the sale, which may be offset by certain U.S. capital losses; or

We are or have been a United States real property holding corporation (a USRPHC ) for United States federal income tax purposes at any time during the shorter of the five-year period ending on the date of the sale or other disposition and the period such Non-U.S. Holder held our common stock (the shorter period hereinafter referred to as the lookback period ); provided that if our common stock is regularly traded on an established securities market, this rule will generally not cause any gain to be taxable unless the Non-U.S. Holder owned more than 5% of our common stock at some time during the lookback period. We do not believe that we are a USRPHC and do not expect to become one in the future. However, we could become a USRPHC as a result of future changes in assets or operations.

**Information Reporting and Backup Withholding Tax**



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The amount of dividends paid to each U.S. Holder will be reported annually to the IRS and to each U.S. Holder. A U.S. Holder may be subject to backup withholding (currently at a rate of 28%) with respect to dividends on, and the proceeds from the sale or redemption of, common stock, unless such holder (a) is an entity that is exempt from withholding (including, among others, corporations and certain tax-exempt organizations) and when required, demonstrates this fact, or (b) provides the payor with its correct taxpayer identification number, which, for an individual, is ordinarily his or her social security number, and otherwise complies with applicable requirements of the backup withholding rules.

Generally, we must report annually to the IRS and to each Non-U.S. Holder the amount of dividends paid to, and the tax withheld with respect to, each Non-U.S. Holder. These reporting requirements apply regardless of whether withholding was reduced or eliminated by an applicable tax treaty. Copies of this information also may be available under the provisions of a specific tax treaty or agreement with the tax authorities in the country in which the Non-U.S. Holder resides or is established.

In general, backup withholding will not apply to dividends paid to a Non-U.S. Holder and to proceeds from the disposition of our common stock paid to a Non-U.S. Holder if the holder has provided the required certification that it is a Non-U.S. Holder and neither we nor our paying agents have actual knowledge or reason to know that the holder is a United States person.

Under United States Treasury Regulations, the payment of proceeds from the disposition of our common stock by a Non-U.S. Holder made to or through a foreign office of a broker to its customer generally are not subject to information reporting or backup withholding. However, if the broker is a U.S. person, a controlled foreign corporation for U.S. federal income tax purposes, a foreign person 50% or more of whose gross income from certain periods is effectively connected with a United States trade or business, or a foreign partnership with significant United States ownership, then information reporting (but not backup withholding) will be required, unless the broker has in its records documentary evidence that the beneficial owner of the payment is not a U.S. person or is otherwise entitled to an exemption, and other applicable certification requirements are met (and the broker has no actual knowledge to the contrary). Information reporting and backup withholding generally will apply to proceeds of a disposition of our common stock effected at a United States office of any United States or foreign broker, unless the broker has in its records documentary evidence that the beneficial owner of the payment is not a U.S. person or is otherwise entitled to an exemption, and other applicable certification requirements are met.

Backup withholding does not represent an additional income tax. Any amounts withheld from a payment to a holder under the backup withholding rules will be allowed as a credit against the holder's United States federal income tax liability and may entitle the holder to a refund, provided that the required information or returns are timely furnished by the holder to the IRS.

**The foregoing discussion of certain U.S. federal income tax considerations is for general information only and is not tax advice. Accordingly, each prospective investor should consult with his own tax adviser regarding U.S. federal, state, local and non-U.S. income and other tax consequences of the acquisition, holding and disposing of our common stock.**

### LEGAL MATTERS





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The validity of the shares of common stock issued in this offering will be passed upon for us by the law firm of Foley & Lardner LLP, Tampa, Florida.

**EXPERTS**



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The consolidated financial statements as of and for the years ended December 31, 2004, 2003, and 2002 included in this prospectus have been audited by Stonefield Josephson, Inc., independent auditors, as stated in their report appearing herein and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

### **WHERE YOU CAN FIND MORE INFORMATION**



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We are subject to the informational reporting requirements of the Securities Exchange Act of 1934, as amended. In accordance with the Exchange Act, we file reports, proxy statements and other information with the Securities and Exchange Commission. You can inspect and copy these reports, proxy statements and other information at the Public Reference Room of the Securities and Exchange Commission at 450 Fifth Street N.W., Washington, D.C. 20549, at prescribed rates. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Our Securities and Exchange Commission filings are also available on the Securities and Exchange Commission's web site. The address of this site is <http://www.sec.gov>.

We have filed with the Securities and Exchange Commission a registration statement (which term includes all amendments, exhibits and schedules thereto) on Form S-1 under the Securities Act of 1933, as amended, with respect to the shares offered by this prospectus. This prospectus is part of that registration statement and, as allowed by Securities and Exchange Commission's rules, does not contain all the information set forth in the registration statement and the exhibits to the registration statement. The registration statement may be inspected at the public reference facilities maintained by the Securities and Exchange Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549-0102 and is available to you on the Securities and Exchange Commission's web site.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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To the Board of Directors and Shareholders of

Liquidmetal Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Liquidmetal Technologies, Inc. and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations and comprehensive loss, shareholders' equity (deficiency), and cash flows for each of the three years in the period ended December 31, 2004. Our audit also included the financial statement schedule listed in Item 16 as of and for the years ended December 31, 2004. These financial statements are the responsibility of management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Liquidmetal Technologies, Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company's significant operating losses and working capital deficit raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Irvine, California

Certified Public Accountants

March 3, 2005

## LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	September 30, 2005 (unaudited)	2004	December 31, 2003
(in thousands, except share data)			
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 933	\$ 742	\$ 3,127
Restricted cash		754	
Accounts receivable (net of allowance for doubtful accounts of \$82, \$108 and \$127 at September 30, 2005, December 31, 2004 and 2003)	2,193	1,668	3,748
Inventories	2,332	2,353	2,060
Prepaid expenses and other current assets	1,363	930	395
Assets available for sale, net			827
Total current assets	6,821	6,447	10,157
Property, plant and equipment, net	13,889	16,434	17,743
Idle equipment	190	1,906	1,671
Long term inventory		1,810	
Other intangibles, net	1,151	1,143	984
Other assets	950	768	297
Total assets	\$ 23,001	\$ 28,508	\$ 30,852
<b>LIABILITIES AND SHAREHOLDERS EQUITY (DEFICIENCY)</b>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 5,701	\$ 4,969	\$ 3,683
Settlement payable	3,234	3,246	2,765
Deferred revenue	879	900	1,435
Short-term debt	237		
Long-term debt, current portion net of discount of \$0, \$851, and \$0 as of September 30, 2005, December 31, 2004 and 2003, respectively.	1,204	5,991	1,032
Other liabilities, current portion	701	1,032	1,940
Warrant liability	4,633	550	
Total current liabilities	16,589	16,688	10,855
Long-term debt, net of current portion and discount of \$7,023 as of September 30, 2005, and \$0 as of December 31, 2004 and 2003.	6,953	2,618	3,015
Other long-term liabilities, net of current portion	431	342	814
Total liabilities	23,973	19,648	14,684
Commitments and contingencies			
Minority interest			5
Shareholders' equity (deficiency):			
Preferred stock, \$0.001 par value; 10,000,000 authorized and 0 issued and outstanding at September 30, 2005 and December 31, 2005 and 2004			
Common stock, \$0.001 par value; 100,000,000 shares authorized, 42,164,121 issued and outstanding at September 30, 2005, and 41,609,652 at December 31, 2004 and 2003	42	42	42
Additional paid in capital	136,025	132,160	128,581
Unamortized stock-based compensation			(128)
Accumulated deficit	(139,088)	(125,313)	(112,587)

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Accumulated other comprehensive income		2,049		1,971		255
Total shareholders' equity (deficiency)		(972)		8,860		16,163
Total liabilities and shareholders' equity	\$	23,001	\$	28,508	\$	30,852

The accompanying notes are an integral part of the consolidated financial statements.

## LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(in thousands, except share data)

	Nine Months Ended September 30, 2005 (unaudited)		2004	2004	Years Ended December 31, 2003		2002 (restated)			
<b>Consolidated Statements Of Operation Data:</b>										
Revenue	\$	10,912	\$	14,958	\$	17,429	\$	13,658	\$	9,138
Cost of sales		10,553		9,273		12,168		18,162		5,656
Gross profit		359		5,685		5,261		(4,504)		3,482
Operating expenses:										
Selling, general, and administrative expenses		6,521		9,178		11,591		17,729		13,099
Research and development expenses		806		1,060		1,467		8,780		11,825
Impairment of goodwill								184		
Impairment of long lived assets		3,394						2,684		
Total operating expenses		10,721		10,238		13,058		29,377		24,924
Loss before interest, other income, income taxes, minority interest and discontinued operations		(10,362)		(4,553)		(7,797)		(33,881)		(21,442)
Loss from extinguishments of debt		(1,247)		(1,663)		(1,663)				
Change in value of warrants, net		1,145		846		747				
Other income				302		302				
Interest expense		(3,325)		(3,242)		(3,603)		(390)		(1,109)
Interest income		14		34		37		304		506
Gain on sale of marketable securities held for sale								1,178		832
Loss before minority interest and discontinued operations		(13,775)		(8,276)		(11,977)		(32,789)		(21,213)
Minority interest in loss of consolidated subsidiary								21		118
Loss from continuing operations		(13,775)		(8,276)		(11,977)		(32,768)		(21,095)
Discontinued operations:										
Income (loss) from discontinued operations, net				(749)		(749)		(964)		83
Gain from disposal of discontinued operations, net								127		1,556
Net loss	\$	(13,775)	\$	(9,025)	\$	(12,726)	\$	(33,605)	\$	(19,456)
Foreign exchange translation gain (loss) during the period										
		78		490		1,716		211		(28)
Net unrealized gain (loss) on marketable securities								(1,668)		1,668
Comprehensive loss	\$	(13,697)	\$	(8,535)	\$	(11,010)	\$	(35,062)	\$	(17,816)
Loss per share from continuing operations										
	\$	(0.33)	\$	(0.20)	\$	(0.29)	\$	(0.79)	\$	(0.54)
Gain (loss) per share from discontinuing operations	\$		\$	(0.02)	\$	(0.02)	\$	(0.02)	\$	0.04

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Net loss per share	\$	(0.33)	\$	(0.22)	\$	(0.31)	\$	(0.81)	\$	(0.50)
Weighted average shares - basic and diluted		41,717		41,610		41,610		41,505		38,714

The accompanying notes are an integral part of the consolidated financial statements.

**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (DEFICIENCY)**

(in thousands, except share data)

	Preferred Shares	Preferred Stock	Common Shares	Common Stock	Additional Paid in Capital (restated)	Unamortized Stock-based Compensation (restated)	Accumulated Deficit (restated)	Accumulated Other Comprehensive Income (Loss)	Total							
Balance, December 31, 2000		\$	30,884,042	\$	19,305	\$	12,421	\$	(35,502)	\$	96	\$	(3,680)			
Preferred stock issued	456,857		5,665										5,665			
Commission expense on sale of preferred stock			(88)										(88)			
Common stock issued			977,034	5,477									5,477			
Stock options exercised			1,822,581	2,400									2,400			
Conversion of notes payable			1,339,858	2,570									2,570			
Discounts on notes payable					1,692								1,692			
Stock-based compensation					9,815								9,815			
Unamortized stock based compensation						(7,294)							(7,294)			
Dilution gain on common stock issued by subsidiaries					37								37			
Purchase of common stock by subsidiaries					(50)								(50)			
Foreign exchange translation loss								(24)					(24)			
Net loss (as restated)								(24,024)					(24,024)			
Balance, December 31, 2001 (as restated)	456,857	\$	5,577	35,023,515	\$	29,752	\$	23,915	\$	(7,294)	\$	(59,526)	\$	72	\$	(7,504)
Common stock issued			5,229,000	78,435										78,435		
Transaction expenses of initial public offering including commissions				(7,714)										(7,714)		
Stock options exercised			299,873	504										504		
Conversion of preferred stock to common stock	(456,857)	(5,577)	456,857	5,577												
Stock-based compensation							4,694							4,694		
Unamortized stock option based compensation					(2,340)	2,340										

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Foreign exchange translation loss						(28)	(28)							
Net unrealized gain on marketable securities						1,668	1,668							
Net loss (as restated)					(19,456)		(19,456)							
Balance, December 31, 2002 (as restated)	\$	41,009,245	\$	106,554	\$	21,575	\$ (260)	(78,982)	\$	1,712	\$	50,599		
Stock options exercised		684,165		1,149								1,149		
Repurchase of shares		(93,758)		(653)								(653)		
Change in par value due to Reincorporation				(107,008)		107,008								
Stock-based compensation		10,000				100		25				125		
Unamortized stock option based compensation						(107)		107						
Purchase of common stock of subsidiaries						5						5		
Foreign exchange translation gain								211				211		
Reclassification for net realized gain								(1,668)				(1,668)		
Net loss								(33,605)				(33,605)		
Balance, December 31, 2003	\$	41,609,652	\$	42	\$	128,581	\$	(128)	\$	(112,587)	\$	255	\$	16,163

The accompanying notes are an integral part of the consolidated financial statements.



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	Preferred Shares	Preferred Stock	Common Shares	Common Stock	Additional Paid in Capital (restated)	Unamortized Stock-based Compensation (restated)	Accumulated Deficit (restated)	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2003		\$	41,609,652	\$ 42	\$ 128,581	\$ (128)	(112,587)	\$ 255	\$ 16,163
Stock-based compensation					261	15			276
Unamortized stock-based compensation					(113)	113			
Beneficial conversion feature					3,424				3,424
Warrants cancelled					7				7
Foreign exchange translation gain								1,716	1,716
Net loss							(12,726)		(12,726)
Balance, December 31, 2004		\$	41,609,652	\$ 42	\$ 132,160	\$	(125,313)	\$ 1,971	\$ 8,860
Beneficial conversion feature					3,187				3,187
Conversion of notes payable			462,250		462				462
Common stock issued as directors fees			92,219		175				175
Stock based compensation					41				41
Foreign exchange translation gain								78	78
Net loss							(13,775)		(13,775)
Balance, September 30, 2005		\$	42,164,121	\$ 42	\$ 136,025	\$	(139,088)	\$ 2,049	\$ (972)

The accompanying notes are an integral part of the consolidated financial statements.

## LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands, except share data)

	Nine Months Ended September 30,		Year Ended December 31,		
	2005	2004	2004	2003	2002
	(unaudited)				(restated)
<b>Operating Activities:</b>					
Net loss	\$ (13,775)	\$ (9,025)	\$ (12,726)	\$ (33,605)	\$ (19,456)
Add (gain) loss from operations and loss of disposition of discontinued operations		827	749	837	(1,639)
Income (loss) from continuing operations	(13,775)	(8,198)	(11,977)	(32,768)	(21,905)
Adjustments to reconcile net loss to net cash used by operating activities:					
Impairment of long lived assets	3,394			2,684	
Impairment of goodwill				184	
Loss from Growell Settlement				2,765	
Gain on sale of marketable securities held for sale				(1,178)	(832)
Gain on disposal of property and equipment	(14)	8	4		
Minority interest				(21)	(118)
Depreciation and amortization	2,516	2,585	3,444	4,354	1,513
Amortization of debt discount	1,447	2,692	2,860		912
Stock based compensation	41	276	276	123	2,203
Loss on extinguishment of debt	1,247	1,663	1,663		
Bad debt expense (recovery)	(21)	111	84	(28)	921
Warranty expense	126	269	288	(297)	237
Gain from change in value of warrants			747		
Changes in operating assets and liabilities:					
Accounts receivable	(504)	47	1,996	1,660	(5,319)
Inventories	178	(1,950)	(2,103)	(100)	(1,432)
Prepaid expenses and other current assets	(404)	(1,111)	(535)	1,689	(990)
Other assets	(632)	(877)	(869)	83	(189)
Accounts payable and accrued expenses	752	3,887	998	(5,969)	5,990
Deferred revenue	(21)	(597)	(535)	38	567
Warrant liabilities	(1,145)	449	(750)		
Other liabilities	(142)	(4,708)	(1,241)	2,661	
Net cash used for continuing operations	(6,957)	(5,454)	(6,397)	(24,120)	(17,632)
Net cash used for discontinued operations		(5)	73	(2,429)	(2,756)
Net cash used by operating activities	(6,957)	(5,459)	(6,324)	(26,549)	(20,388)
<b>Investing Activities:</b>					
Purchases of property and equipment	(153)	(73)	(73)	(2,329)	(23,527)
Proceeds from sale of property and equipment	69	11	38		
Purchase of marketable securities held-for-sale					(2,000)

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Proceeds from sale of marketable securities held-for-sale				2,578	1,432
Acquisition of subsidiary, net of cash received					74
Investment in patents and trademarks	(92)	(202)	(273)	(298)	