ASTRONICS CORP
Form 8-K
December 06, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 5, 2013

ASTRONICS CORPORATION

(Exact name of registrant as specified in its charter)

New York	**0-7087**	**16-0959303**
(State or Other Jurisdiction of Incorporation)	**(Commission File Number)**	**(I.R.S. Employer Identification No.)**

130 Commerce Way East Aurora, New York	**14052**

(Address of principal executive offices) **(Zip Code)**

Registrant s telephone number, including area code: (716) 805-1599

N/A

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2 below)

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01 Entry into a Material Definitive Agreement.
The disclosure set forth in Item 2.01 below is incorporated in this Item 1.01 by reference

Item 2.01 Completion of Acquisition or Disposition of Assets
As previously discussed in a Current Report on Form 8-K filed by the Astronics Corporation (the Company) on November 4, 2013, (the Company) entered into a sale agreement and a guarantee agreement (Agreements) to acquire PGA Electronic s.a. (PGA) for approximately $31.2 million. The purchase price paid was comprised of approximately $17.5 million in cash and approximately $13.7 million (264,168 shares) in Astronics common stock.

A copy of the Purchase Agreement was filed as Exhibit 10.1 to this Current Report on Form 8-K on November 4, 2013.

The Company issued a press release on December 6, 2013, regarding the completion of the acquisition, a copy of which is attached as Exhibit 99.1 to this Current Report on Form 8-K.

Item 9.01 Financial Statements and Exhibits
(d) Exhibits

Exhibit **Number**	**Description**
99.1	Press Release of Astronics Corporation dated December 6, 2013

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

		Astronics Corporation
Dated: December 5, 2013	By:	/s/ David C. Burney
	Name:	David C. Burney
		Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit	Description
99.1	Press Release of Astronics Corporation dated December 6, 2013

Times New Roman" style="font-size:10.0pt;">Restricted cash

2,083

Prepaid expenses and other current assets

577

Other property, plant and equipment

518

Intangibles, net

1,144

Other assets

94

Total consolidated assets

$

26,544

Assets excluded from segment assets include assets attributable to the Company s corporate headquarters. The Company s largest assets consist of cash and intangible assets, which consist primarily of the Company s patents and trademarks.

10. Income (Loss) Per Common Share

Basic earnings per share (EPS) is computed by dividing earnings (loss) attributable to common shareholders by the weighted average number of common shares outstanding for the periods. Diluted EPS reflects the potential dilution of securities that could share in the earnings.

Options to purchase 7,433,438 shares of common stock at prices ranging from $0.77 to $15.00 per share were outstanding at June 30, 2007, but were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive. Warrants to purchase 13,278,651 shares of common stock with prices ranging from $1.55 to $2.13 per share outstanding at June 30, 2007, were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive. Additionally, 21,007,949 shares of common stock issuable upon conversion of the Company s convertible notes with conversion prices between $1.00 and $1.75 per share outstanding at June 30, 2007 were not included in the computation of diluted EPS for the same period because the inclusion would have been antidilutive.

11. Commitments and Contingencies

The Company is from time to time a party to certain legal proceedings arising in the ordinary course of business. Although outcomes cannot be predicted with certainty, the Company does not believe that any legal proceeding to which it is a party will have a material adverse effect on the Company s financial position, results of operations, and cash flows.

In April 2006, we reached agreements-in-principle to settle our previously-disclosed consolidated securities class action and shareholder derivative actions for a total of $7,500; $7,025 for the class action and $475 for the derivative actions. In addition, we will commit to maintain or implement various corporate governance measures in connection with the settlement of the derivative actions.

The consolidated class action arose from a number of lawsuits filed in 2004 against our company and certain of our former and current directors and officers on behalf of persons who purchased our common stock between May 21, 2002 and May 13, 2004. These actions, which were brought under the federal securities laws, alleged 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 former chief executive officer. They also alleged that our company and certain of our present and former officers and directors 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. On October 19, 2006, the presiding judge entered an Order giving final approval of the class action settlement. In connection with the settlement, our directors and officers liability insurers contributed $7,025 to a settlement fund, from which approved claims of eligible class members will be paid in accordance with a court-approved plan of allocation. Taking into account the insurance contribution, the net cost of the settlement to our company is approximately $475, which is the insurance deductible we paid over several quarters ending in the third quarter of 2005, and which was previously recorded as a charge.

In addition, in May 2004, two shareholder derivative actions were filed in the Superior Court of Orange County, California and later consolidated. Shortly thereafter, one additional shareholder derivative action was filed in the United States District Court for the Middle District of Florida, Tampa Division. These derivative actions were brought by certain shareholders against certain of our present and former officers and directors as well as our company (as a nominal defendant). The suits alleged that the defendants breached various fiduciary duties and otherwise violated state law based primarily upon the same facts and circumstances underlying the federal securities class action. On August 2, 2006, plaintiffs counsel in the California derivative action filed a Notice of Settlement in the Superior Court. The action is presently stayed while the parties counsel negotiates and prepares formal settlement documents. Final documentation and approval of the settlement of the derivative actions remains outstanding.

In August 2006, the United States Department of Justice (DOJ) instituted a grand jury proceeding in the Middle District of Florida to investigate, among other things, alleged accounting improprieties in relation to certain of our business transactions and a personal stock transaction by our former chief executive officer. The grand jury proceeding is based primarily upon the same underlying facts and circumstances as alleged in the federal class action and shareholder derivative actions. To date, subpoenas for the production of documents and/or grand jury testimony have been issued to our company and several present and former officers and directors. We are cooperating with the DOJ in its investigation.

On January 3, 2007, we completed a private placement of new 8% Convertible Subordinated Notes due January 2010 (the January 2010 Notes) that, as amended, provided for the issuance of $16,300 in principal amount of January 2010 Notes. The January 2010 Notes were issued pursuant to a Securities Purchase Agreement, dated January 3, 2007, between our company and the purchasers of the January 2010 Notes (the January Purchase Agreement). Under the terms of the original January Purchase Agreement, we agreed to repay or otherwise satisfy, within 5 days after the closing of the private placement, approximately $15,461 of our outstanding debt under previously issued promissory notes, including the August 2007 Notes, the Atlantic Note, and New Bridge Notes (the Debt Satisfaction Covenant). We originally agreed to this covenant based on assurances that a substantial number of holders of the August 2007 Notes would elect to convert their August 2007 Notes at a reduced conversion price following the private placement under a note conversion agreement proposed by us, but most of

such holders ultimately elected not to proceed with such conversion. Accordingly, in an effort to preserve funds, we have not yet repaid the indebtedness as required by the original January Purchase Agreement, and in April 2007, we entered into an amendment to the January Purchase Agreement providing that we will have until October 1, 2007 (or such earlier date on which the indebtedness to be repaid is due) to comply with the Debt Satisfaction Covenant.

On March 22, 2007, one of the purchasers of the January 2010 Notes (holding January 2010 Notes in the aggregate amount of $2,000) sent us an event of default notice (Event of Default Notice) indicating that we had defaulted under the January Purchase Agreement (and therefore under the January 2010 Note) by failing to comply with the Debt Satisfaction Covenant. This holder did not execute the April 2007 amendment to the January Purchase Agreement. In general, upon a breach of the January 2010 Notes or January Purchase Agreement, a holder of the January 2010 Notes may require us to redeem the January 2010 Notes at a price equal to the greater of (i) the conversion amount to be redeemed and (ii) the product of (A) the conversion rate with respect to such conversion amount in effect at such time as the purchaser of the January 2010 Note delivers an Event of Default Redemption Notice (as defined below) and (B) the closing sale price of our common stock on the date immediately preceding such event of default. Under the terms of the January 2010 Notes and January Purchase Agreement, we have ten (10) business days after the receipt of an Event of Default Notice to cure a default. On April 6, 2007, the holder which sent the Event of Default Notice further sent us an event of default redemption notice (Event of Default Redemption Notice). The Event of Default Redemption Notice states that the holder has elected to require us to redeem its January 2010 Note for a price equal to $2,000 (the amount of the January 2010 Note) plus accrued and unpaid interest. On April 16, 2007, we were served with a complaint filed by the holder in the Federal District Court in Minnesota to collect this amount. On July 17, 2007, the Company received notice that the purchaser had assigned the Note to another investor and that the purchaser would therefore dismiss the pending action. In accordance with the terms of the notice, the action against the Company was dismissed by the purchaser with prejudice on July 18, 2007 (see Note 13).

In March 1996, the Company entered into a distribution agreement whereby it granted to a third party exclusive rights to market and sell golf products incorporating Liquidmetal Technology to certain Japanese sporting equipment companies. The third party paid the Company a $1,000 distribution fee as part of this agreement, of which a portion was refundable according to a formula based on the gross profit earned by the third party. The remaining unearned distribution fee of $830 had not been refunded. On March 28, 2003, the distribution agreement was terminated and the Company entered into a new agreement to pay to the same third party a commission on the net sales price of all Liquidmetal golf equipment that is shipped by the Company or its affiliates to Japanese golf companies for sale into the Japanese end-market. This commission was to be applied to golf equipment shipped by the Company or its affiliates during the period beginning on March 28, 2003 and ending on March 28, 2006. If, by March 28, 2006, the Company has not paid $350 in commission payments, the balance between commission paid and $350 were to be paid by April 30, 2006, thereby guaranteeing the third party a $350 minimum payment during the term of the agreement. As of June 30, 2007 the Company has paid $30 of commission. As of June 30, 2007, $320 remains as liability and is included in accounts payable and accrued liabilities.

On June 26, 2006, the Company entered into a joint venture agreement with SAGA, SpA in Padova, Italy, (SAGA) a specialist precision parts manufacturer. The joint venture is named Liquidmetal SAGA Italy, Srl (LSI). The Company also entered into an exclusive manufacturing license agreement for the eyewear industry with LSI. Under the joint venture agreement, the Company has option to buy ownership interest in LSI, initially, of 19.9% to up to 50%. In December 2006, the Company exercised the 19.9% interest in LSI and will have two years to purchase the additional interest at a nominal price. In January 2007 and June 2007, the Company contributed additional $217 and $86, respectively, into LSI as additional investment. The contribution did not change the Company s 19.9% interest in LSIUnder the licensing agreement, at any time following 18 months after the effective date of the agreement, LSI may exercise its option to sell to the Company certain business assets including manufacturing equipment acquired under the joint venture. During year ended December 31, 2006, the Company recognized revenues of $702 of Liquidmetal alloys sold to SAGA for use in the joint venture. Company anticipates the alloys to be fully utilized by the joint venture prior to the 18 month period. There were no revenues recognized from the joint venture for the six months ended June 30, 2007.

On June 1, 2007, Liquidmetal Technologies, Inc., a Delaware corporation (the Company), entered into a definitive purchase agreement (the Purchase Agreement) with Foster Wheeler Energy Services, Inc., a California corporation (FWESI), to acquire substantially all of the equipment, inventory, and other physical assets of FWESI s thermal spray coatings business

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unit (the Purchase Assets). The business unit was engaged in the business of applying thermal spray metallic coatings in industrial applications, including primarily the oil drilling industry. The purchase price of the Purchased Assets was $750, of which $300 was paid on the closing date. The balance of the purchase price is payable as follows: $100 on December 1, 2007, $100 on March 1, 2008, $100 on June 1, 2008, and $150 due on June 1, 2009, all of which are recorded in accounts payable and accrued expenses at June 30, 2007. The Company s payment of the purchase price is secured by a security interest in the Purchased Assets. The Purchase Agreement also provides that FWESI will engage the Company as its exclusive subcontractor through December 1, 2009 to perform any work on FWESI projects that require the use of the Purchased Assets. The Company will continue to operate the acquired thermal spray business from FWESI s business location in Dothan, Alabama, and the Purchased Assets will be operated as a part of the Company s Liquidmetal Coatings business unit.

12. Related Party Transactions

In June 2003, the Company entered into an exclusive, ten-year license agreement with LLPG, Inc. (LLPG), a corporation headed by, Jack Chitayat, a former director of the 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. The Company, in turn, 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.

In December 2006, the Company entered into an amended license agreement with LLPG, which extended the license agreement to fifteen years at reduced royalty rates. Additionally, the amended license agreement includes a $400 termination fee to be paid out in quarterly installments in 2007. The termination fee will be recognized as revenue when received in 2007. The Company recognized $25 for the of revenue as minimum royalty fees under the licensing agreement during the three and six months ended June 30, 2007.

The Company has 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 the Company s 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. Additionally, the Company reimburses Caltech for laboratory expenses incurred by Professor Johnson s Caltech laboratory, which during the three and six months ended June 30, 2007 amounted to $0 and $30, respectively. The laboratory expenses incurred by Professor Johnson s Caltech laboratory during the three and six months ended June 30, 2006 amounted to $0 and $30, respectively.

Additionally, the Company is a party to a consulting agreement with Mr. Johnson. Under this agreement, Mr. Johnson provides consulting services on an as-needed basis through 2004 as it relates to marketing and development Liquidmetal alloy. During 2005, the agreement continued on a month to month basis. In April 2006, the Company entered into an agreement with Mr. Johnson effective from January 1, 2006 through December 31, 2006. During the three and six months ended June 30, 2007 the Company incurred $15 and $31 in consulting fees from Mr. Johnson, respectively. During the three and six months ended June 30, 2006, the Company incurred $15 and $15 in consulting fees from Mr. Johnson, respectively.

The Company is a party to a consulting agreement with Chitnis Consulting, Inc., which is owned 100% by Shekhar Chitnis, a former director and executive officer of the Company. Under this agreement, the Company engaged Chitnis Consulting to provide consulting services on an as-needed basis through December 31, 2005. On January 1, 2007, the term of the agreement was extended to December 31, 2007. During the three and six months ended June 30, 2007, the Company incurred $0 in consulting fees from Chitnis Consulting, respectively. During each of the three and six months ended June 30, 2006, the Company incurred $13 and $25 in consulting fees from Chitnis Consulting, respectively.

In November 2004, the Company 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

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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 the Company s 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 the Company under Section 16(b) in the amount of $302. Mr. Kang has acknowledged this liability, and in an agreement negotiated between Mr. Kang and the Audit Committee and approved by the full Board, Mr. Kang will pay this liability through periodic installments in 2005 and 2007. As a result, the Company accrued for the $302 receivable in other assets and other income as of December 31, 2004. The above-described transactions involving Growell Metal was 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. As of June 30, 2007, the outstanding amount of the receivable was $235, which is included in prepaid and other current assets.

During 2006, the Company purchased production supplies and molds from Grace Metal, Lead Metal, and SDM, which are controlled by James Kang, a former director and officer of the Company. The Company purchased a total of $103 and $244 for the three and six months ended June 30, 2007, of which $89 is included in accounts payable and accrued liabilities at June 30, 2007. The Company purchased a total of $466 for the year ended December 31, 2006, of which, $10 is included in accounts payable and accrued liabilities at December 31, 2006. Effective October 20, 2006, Mr. Kang began providing services to the Company as a consultant. For the three and six months ended June 30, 2006, the Company incurred $50 and $100, respectively, for his services as consultant.

Additionally, on June 1, 2007, the Company entered into a transaction with Grace Metal (GM), under which (i) GM agreed to purchase from us various equipment (including die casting machines and vacuum induction melters) used in the Company s bulk amorphous alloy business segment and (ii) we granted GM a 10-year exclusive license to manufacture products made from bulk Liquidmetal alloys for customers whose principal headquarters or whose major operations are located in South Korea. Under an equipment purchase agreement between us and GM, GM agreed to buy the purchased equipment for a total purchase price of $2,000, of which $100 were received as of June 30, 2007. The equipment purchase agreement provides that delivery of the equipment can be delayed to accommodate our continuing manufacturing needs, and it also provides that we will retain a security interest in the purchased equipment until full payment of the purchase price.

In consideration of the license agreement with GM, we will be entitled to royalty of 10% of GM s net sales of licensed products (unless GM s margin on the products falls below specified levels, in which case a new royalty will be negotiated in good faith). The agreement provides that we may convert the license to a non-exclusive in the event that the net sales in the second year of the contract or thereafter are not sufficient to result in royalties of $500 or more per year. The agreement also provides that GM will be required to purchase all alloy feedstock from us, and we will have the right to continue to manufacture Liquidmetal alloy products for South Korean customers until all purchased equipment has been commissioned.

Additionally, effective June 1, 2007, we discontinued our post-processing operation in Weihai, China and transferred our manufacturing staff and equipment in Weihai to GM under an amendment to the equipment purchase agreement with GM. Further, we transferred certain of our manufacturing staff from our South Korean plant to GM. As a result, GM assumed $370 of accrued severance liability for the transferred employee. The equipment purchase agreement and the transfer agreement regarding our Weihai operations resulted in a total net gain of $143, which is recorded as other income.

We have also changed the name of our South Korean subsidiary to Liquidmetal Technologies Korea Co., Ltd, which was formerly Liquidmetal Korea Co., Ltd. GM will assume the name Liquidmetal Korea to conduct business in South Korea.

13. Subsequent Events

On March 22, 2007, we were served with an event of default notice (Event of Default Notice) by one of the purchasers of the January 2010 Notes for failing to comply with the Debt Satisfaction Covenant (see Note 7). On April 6, 2007, the same

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holder which sent the Event of Default notice further sent us and event of redemption notice. On April 16, 2007, we were served with a complaint filed by the holder in the Federal District Court in Minnesota to collect this amount. On July 17, 2007, we received notice that the purchaser had assigned the Note to Carlyle Liquid, a company headed by Jack Chitayat, our former director, and that the purchaser would therefore dismiss the pending action. In accordance with the terms of the notice, the action against the Company was dismissed by the purchaser with prejudice on July 18, 2007.

On July 24, 2007, we completed an $11,095 financing transaction (the Transaction) that provided us with funding to repay convertible notes previously issued by us that were scheduled to become due in July and August 2007. In the Transaction, we transferred substantially all of the assets of the Company s Liquidmetal Coatings division (the Division) to a newly formed, newly capitalized subsidiary named Liquidmetal Coatings, LLC, a Delaware limited liability company (LMC), and LMC assumed substantially all of the liabilities of the Division. LMC was capitalized through a $6,500 subordinated debt and equity investment by C 3 Capital Partners and a $5,000 senior credit facility with Bank Midwest, N.A., both out of Kansas City, Missouri. The transaction resulted in net cash proceed of $11,095 after related debt issuance costs of $405, which LMC used to purchase all of the assets and liabilities of the Division from the Company. The Company will retain a 69.25% interest in LMC, and the remaining 30.75% of the equity of LMC will be held by C 3 Capital Partners, Larry Buffington (who will also serve as the President and CEO of LMC), and CRESO Capital Partners (the financial advisor in the Transaction).

In connection with the above Transaction, we entered into Amendment No. 3 to the Factoring, Loan, and Security Agreement originally entered into with a financing company in April 2005, to exclude intellectual property transferred to LMC as collateral and to release security interest in receivables previously assigned in consideration of full repayment of the outstanding advances. We paid $628 and the financing company applied the $2,083 cash deposit held against the outstanding advance of $2,711 on July 23, 2007. Additionally, the financing company reduced the borrowings against non-approved receivables assigned to 50% of the receivable value.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This management s discussion and analysis should be read in conjunction with the condensed consolidated financial statements and notes included elsewhere in this report on Form 10-Q.

This management s discussion and analysis, as well as other sections of this report on Form 10-Q, may contain forward-looking statements that involve risks and uncertainties, including statements regarding our plans, future events, objectives, expectations, forecasts, or assumptions. Any statement 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 expressions identify forward-looking statements. These statements involve risks and uncertainties that could cause actual outcomes and results to differ materially from the anticipated outcomes or results, and undue reliance should not be placed on these statements. These risks and uncertainties include, but are not limited to, the matters discussed under the caption Factors Affecting Future Results in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and other risks and uncertainties discussed in filings made with the Securities and Exchange Commission (including risks described in subsequent reports on Form 10-Q, Form 10-K, Form 8-K, and other filings). Liquidmetal Technologies disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Overview

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 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 that are incorporated into the finished goods of our customers, and we also market and sell amorphous alloy industrial coatings. We also partner with third-party licensees and distributors to develop and commercialize Liquidmetal alloy products. We have the exclusive right to develop, manufacture, and sell what we believe are the only commercially viable bulk amorphous alloys.

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 ordinary metals and alloys when they solidify. Liquidmetal alloys possess a combination of performance, processing, and cost advantages that we believe makes 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 have processing characteristics similar in many respects to plastics. We believe these advantages could result in Liquidmetal alloys supplanting other incumbent materials in a wide variety of applications. Moreover, we believe these advantages will enable the introduction of entirely new products and applications that are not possible or commercially viable with other materials.

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. The historical operating information for fiscal year 2001 is based substantially on sales of Liquidmetal alloy coatings. In the second half of 2002, we began producing bulk Liquidmetal alloy components and products for incorporation into our customers finished goods. 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, stock-based compensation, 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, 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.

In a connection to an equipment purchase agreement entered into with Grace Metal (GM), a South Korean corporation, effective June 1, 2007, we discontinued our post-processing operation in Weihai, China and transferred our manufacturing staff and equipment in Weihai to GM under an amendment to the equipment purchase agreement with GM. Further, we transferred certain of our manufacturing staff from our South Korean plant to GM. GM was formed by an investor group that includes the former Founder and director of our company, James Kang, who is also the brother of John Kang, Chairman of the Board of our company. We have also changed the name of our South Korean subsidiary to Liquidmetal Technologies Korea Co., Ltd, which was formerly Liquidmetal Korea Co., Ltd. GM will assume the name of Liquidmetal Korea to conduct business in South Korea.

The following discussion and analysis of our financial condition and results of operations focuses on the historical results of our continuing operations.

Critical Accounting Policies and Estimates

The preparation of condensed 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 condensed 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:

- Exchange rate fluctuations
- Warranty accrual
- Allowance for doubtful accounts
- Inventories at lower of cost or net realizable value
- Deferred tax assets
- Valuation of derivatives of warrants and embedded conversion features

Our Annual Report on Form 10-K for the year ended December 31, 2006, contains further discussions on our critical accounting policies and estimates.

The company adopted Statement of Financial Accounting Standards No. 123, Share-Based Payment (SFAS 123R), on January 1, 2006. This new standard requires companies to expense the fair value of employee stock options and similar awards. The company adopted SFAS 123R using the modified prospective transition method. Therefore, stock based compensation expense measured in accordance with SFAS 123R was recorded during the first quarter of 2006, but the prior year consolidated statement of income was not restated. The adoption of SFAS 123R resulted in incremental expense of $0.2 and $0.4 million for the three and six months ended June 30, 2007, respectively, and $0.2 and $0.6 million for the three and six months ended June 30, 2006, respectively.

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Results of Operations

Comparison of the three months ended June 30, 2007 and 2006

Revenue. Revenue increased $1.2 million to $8.3 million for the three months ended June 30, 2007 from $7.1 million for the three months ended June 30, 2006. The increase consisted of an increase of $1.3 million from the sales of our coating products as a result of increase in demand from oil drilling applications offset by a decrease of $0.1 million from our research and development contracts.

Cost of Sales. Cost of sales increased to $7.7 million, or 92% of revenue, for the three months ended June 30, 2007 from $5.6 million, or 78% of revenue, for the three months ended June 30, 2006. The increases were a result of increases in our Liquidmetal coatings business and higher manufacturing costs of new production items in our Liquidmetal bulk alloy business. Significant portions 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 increased to $2.5 million, or 30% of revenue, for the three months ended June 30, 2007 from $2.4 million, or 33% of revenue, for the three months ended June 30, 2006. This increase was primarily a result of increases in professional and consulting fees of $0.4 million and increases in bad debt expense of $0.1 million offset by a decrease in wages and expenses of $0.4 million.

Research and Development Expenses. Research and development expenses remained at $0.3 million, or 4% of revenue, for the three months ended June 30, 2007 and 2006. 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.

Change in Value of Warrants. Change in value of warrants increased to a gain of $0.6 million, or 7% of revenue, for the three months ended June 30, 2007 from a loss of $1.4 million, or 20% of revenue, for the three months ended June 30, 2006. The change in value of warrants consisted of warrants issued from convertible notes and subordinated notes funded between 2004 and 2007 primarily as a result of fluctuations in our stock price.

Change in Value of Conversion Feature. Change in the value of our conversion feature liability from our convertible notes funded between 2004 and 2007 resulted in a gain of $1.2 million, or 14% of revenue, during the three months ended June 30, 2007 from a loss of $2.1 million, or 30% of revenue, for the three months ended June 30, 2006, primarily as a result of fluctuations in our stock price.

Other Income. Other income decreased to $49 thousand, during the three months ended June 30, 2007, primarily from gain recognized from disposal of assets, from $0.1 million, or 1% of revenue for the three months ended June 30, 2006 due to gain recognized from disposal of idle equipment.

Interest Expense. Interest expense was $2.7 million, or 32% of revenue, for the three months ended June 30, 2007 and was $3.3 million, or 46% of revenue, for the three months ended June 30, 2006. Interest expense consists primarily of debt amortization and interest accrued on outstanding convertible and subordinated notes, borrowings under the April 2005 factoring, loan, and security agreement and the Kookmin loan. The decrease was due to debt conversion, decreased debt discount amortization and decrease in interest costs accrued for late filing penalties during the three months ended June 30, 2007.

Interest Income. Interest income was $46 thousand for the three months ended June 30, 2007 and was $7 thousand for the three months ended June 30, 2006 from interest earned on cash deposits.

Comparison of the six months ended June 30, 2007 and 2006

Revenue. Revenue decreased $0.2 million to $13.4 million for the six months ended June 30, 2007 from $13.6 million for the six months ended June 30, 2006. The decrease included $1.7 million decrease in sales and prototyping of parts manufactured

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from bulk Liquidmetal alloys to consumer electronics customers as a result of decrease in demand from consumer electronics applications during the first quarter of 2007 and a decrease of $0.2 million in research and development services, offset by an increase of $1.7 million from sales of our coating products as a result of increase in demand from oil drilling applications.

Cost of Sales. Cost of sales increased to $14.1 million, or 105% of revenue, for the six months ended June 30, 2007 from $10.9 million, or 80% of revenue, for the six months ended June 30, 2006. The increases were a result of increases in our Liquidmetal coatings business and higher manufacturing costs of new production items in our Liquidmetal bulk alloy business. 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 $5.0 million, or 38% of revenue, for the six months ended June 30, 2007 from $5.1 million, or 37% of revenue, for the six months ended June 30, 2006. This increase was primarily a result of increases in professional and consulting fees of $0.5 million and increases of product warranty of $0.2 million offset by decreases in wages and compensation of $0.5 million and decreases in travel expenses of $0.1 million.

Research and Development Expenses. Research and development expenses increased to $0.6 million, or 4% of revenue, for the six months ended June 30, 2007 from $0.5 million, or 4% of revenue, for the six months ended June 30, 2006. The increase was primarily due to increase in professional and consulting services expense. 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.

Loss from Extinguishments of Debts. Loss from extinguishments of debt increased to $0.6 million, or 5% of revenue, for the six months ended June 30, 2007 from $0 for the six months ended June 30, 2006. The $0.6 million loss was recognized from the extinguishment of certain of our convertible and subordinated notes in January 2007.

Change in Value of Warrants. Change in value of warrants increased to a gain of $4.3 million, or 32% of revenue, during the six months ended June 30, 2007 from a loss of $2.7 million, or 20% of revenue, during the six months ended June 30, 2006. The change in value of warrants consisted of warrants issued from convertible notes and subordinated notes funded between 2004 and 2007 primarily as a result of fluctuations in our stock price.

Change in Value of Conversion Feature. Change in the value of our conversion feature liability from our convertible notes funded between 2004 and 2007 resulted in gain of $5.5 million, or 41% of revenue, during the six months ended June 30, 2007 from a loss of $3.9 million, or 29% of revenue, during the six months ended June 30, primarily as a result of fluctuation in our stock prices.

Other Income. Other income was $49 thousand for the six months ended June 30, 2007, primarily from gain recognized from disposal of assets, from $0.6 million, or 4% of revenue, for the six months ended June 30, 2006 from $0.1 million gain recognized from disposal of idle equipment and $0.5 million gain recognized from termination of a distribution agreement with a Japanese sporting goods distributor originally entered into in March 1996.

Interest Expense. Interest expense was $5.5 million, or 41% of revenue, for the six months ended June 30, 2007 and was $5.1 million, or 37% of revenue, for the six months ended June 30, 2006. Interest expense consists primarily of debt amortization and interest accrued on outstanding convertible and subordinated notes, borrowings under the April 2005 factoring, loan, and security agreement, the Kookmin loan and late registration and late filing fee penalties.

Interest Income. Interest income was $0.1 million for the six months ended June 30, 2007 and $9 thousand for the six months ended June 30, 2006, from interest earned on cash deposits.

Liquidity and Capital Resources

Our cash used for operating activities was $6.4 million for the six months ended June 30, 2007 and $3.6 million for the six months ended June 30, 2006. Our working capital deficit decreased from $23.2 million at December 31, 2006 to $19.7

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million at June 30, 2007. The Company s working capital deficit decrease of $3.5 million was primarily attributable to increase in cash and cash equivalents of $2.1 million, increase in restricted cash of $2.1 million, increase in trade receivable of $1.2 million, and decrease in long-term debt, current portion, of $1.8 million, offset by a decrease in inventories of $1.6 million, increase in conversion feature liability of $1.4 million, increase in short-term debt of $0.5 million, and increase in deferred revenue of $0.2 million.

Our cash used in investing activities was $1.1 million for the six months ended June 30, 2007 for the acquisition of property and equipment and investments in patents and trademarks.

Our cash provided by financing activities was $9.9 million for the six months ended June 30, 2007. We received net $1.5 million in borrowings from factoring agreement executed in April 2005. The proceeds from borrowings have been used to meet working capital requirements. We have $1.8 million available for future borrowings under the factoring agreement, which is contingent on approval of eligible receivables by the financing company.

On January 3, 2007, we completed a private placement of $16.3 million in principal amount of 8% Convertible Subordinated Notes due January 2010 (the January 2010 Notes). The January 2010 Notes were issued for aggregate cash in the amount of $12.9 million, in payment of a total of $3.4 million in principal and accrued but unpaid interest under our previously issued 7% Senior Secured Convertible Notes due August 2007 and our 8% Unsecured Subordinated Notes, and $0.1 million cash discount.

In June 2007, we entered into an equipment sale and licensing agreement with Grace Metal, a South Korean corporation, providing for $2 million in exchange for die casting machines and vacuum induction melters, and a 10-year exclusive license to manufacture Liquidmetal alloys for customers whose principal headquarters or major operations are based in South Korea. The principal purpose of the transactions with Grace Metal was to raise capital for the next-generation casting equipment and to shift the cost and burden of our manufacturing operations to a third party. Grace Metal was formed by an investor group that includes the former Founder and director of our company, James Kang, who is also the brother of John Kang, Chairman of the Board of our company.

In July 2007, we completed an $11.1 million financing transaction that provided funding to repay senior convertible notes previously issued were scheduled to become due in July and August 2007. We transferred substantially all of the assets of Liquidmetal Coatings business (the Division) to a newly formed, newly capitalized subsidiary named Liquidmetal Coatings, LLC, a Delaware limited liability company (LMC), and LMC assumed substantially all of the liabilities of the Division. LMC was capitalized through a $6.5 million subordinated debt and equity investment by C 3 Capital Partners and a $5.0 million senior credit facility with Bank Midwest, N.A., both out of Kansas City, Missouri. The transaction resulted in net cash proceed of $11.1 million after related debt issuance costs of $0.4 million, which LMC used to purchase all of the assets and liabilities of the Division from us. We will retain a 69.25% interest in LMC, and the remaining 30.75% of the equity of the LMC will be held by C3 capital Partners, Larry Buffington (who will also serve as the President and CEO of LMC), and CRESO Capital Partners (the financial advisor in the transaction).

We anticipate that the funds raised in the January 2007 private placement, equipment sale and licensing agreement with Grace Metal, and recapitalization of our coatings business will be sufficient to pursue our current operating plan only through the third quarter of 2007, and we will therefore require additional funding at or prior to that time. As a result of the foregoing, we are actively seeking additional sources of capital and seeking to restructure and/or modify existing indebtedness. The amount of funding that we seek and the timing of such fundraising efforts will depend on the extent to which we are able to increase revenues through obtaining additional purchase orders for our products and/or the extent to which we can restructure or modify our debt. Because we cannot be certain that we will be able to obtain adequate funding from debt, equity, or other traditional financing sources, we are also actively exploring several strategic financing options, including the possible sale of our manufacturing plant in South Korea (which would then be replaced with a smaller facility) and additional licensing and outsourcing of our manufacturing operations.

Additionally, we have approximately $3.3 million of principal and accrued interest outstanding under the 8% unsecured subordinated notes (Notes) which will become due August 17, 2007 as of June 30, 2007. We intend to fully repay the amounts due under Notes. However, as of the filing of this document we do not have sufficient funds to repay the Notes by the August 17, 2007 due date. As a result, we will be in default with the holders of the 8% unsecured subordinated notes if we do not satisfy the amounts due under the Notes, unless we receive a waiver of such default. Such a default may have material adverse effect on our operations, financial condition, and results of operations.

We cannot guarantee that adequate funds will be available when needed, and if we do not receive sufficient capital, we may be required to alter or reduce the scope of our operations.

Contractual Obligations

The following table summarizes the Company s obligations and commitments as of June 30, 2007:

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Contractual Cash Obligations (1)	Total	Payments Due by Period (in thousands) Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
Long-term debt (2)	$ 29,488	$ 13,188	$ 16,300	$	$
Short-term debt (3)	3,212	3,212			
Operating leases and rents	1,421	399	834	188	
Consulting services payable	556	308	248		
Foster Wheeler	450	300	150		
Dongyang	12	12			
Nichimen	320	320			
	$ 35,459	$ 17,739	$ 17,532	$ 188	$

(1) Contractual cash obligations include Long-Term Debt comprised of $2,083 of Senior Convertible Notes issued in 2004 and $7,187 of Senior Convertible Notes issued in 2005, $3,009 of Unsecured Subordinated Notes issued in 2006, $16,300 of Convertible Unsecured Notes issued in 2007, and $909 of Kookmin Bank Loan, Short-Term Debt comprised of $3,212 outstanding advances received under factoring, loan, and security agreement, future minimum lease payments under capital and operating leases, and purchase commitments from consultants, payments due from assets purchased from Foster Wheeler thermal spray coatings business unit, payments due from our discontinued equipment manufacturing business (Dongyang), and minimum payments due under a distribution agreement (Nichimen).

(2) Does not include interest payments of $4,030; and un-amortized cash discount and discounts for conversion feature and warrants of $11,647 of our convertible notes.

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

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.

On June 26, 2006, we entered into a joint venture agreement with SAGA, SpA in Padova, Italy, (SAGA) a specialist precision parts manufacturer. The joint venture is named Liquidmetal SAGA Italy, Srl (LSI). We also entered into an exclusive manufacturing license agreement for the eyewear industry with LSI. Under the joint venture agreement, we have the option to buy ownership interest in LSI, initially, of 19.9% to up to 50%. In December 2006, we have purchased 19.9% interest in the joint venture. Under the licensing agreement, at any time following 18 months after the effective date of the agreement, LSI may exercise its option to sell us certain business assets including manufacturing equipment acquired under the joint venture. During the year ended December 31, 2006, we recognized revenues of $0.7 million of Liquidmetal alloys sold to SAGA for use in the joint venture. We anticipate the alloys to be fully utilized by the joint venture prior to the 18 month period. There were no revenues recognized from the joint venture for the six months ended June 30, 2007

Item 3 Quantitative and Qualitative Disclosures about Market Risk

We are exposed to various market risks in conducting the business of the Company, and we anticipate that this exposure will increase as a result of our planned growth. In an effort to mitigate losses associated with these risks, we may at times enter into derivative financial instruments, although we have not historically done so. These may take the form of forward sales contracts, option contracts, foreign currency exchange contracts, and interest rate swaps. We have not, and do not intend to, engage in the practice of trading derivative securities for profit.

Interest Rates. We are exposed to market risks relating to changes in interest rates as our borrowings are subject to the volatility of interest rate risk.

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Commodity Prices. We are exposed to price risk related to anticipated purchases of certain commodities used as raw materials by our businesses, including titanium and zirconium. Although we do not currently enter into commodity future, forward, and option contracts to manage the fluctuations in prices of anticipated purchases, we may enter into such contacts in the future as our business grows and as our purchases of these raw materials increase.

Foreign Exchange Rates. As a result of our operation of a manufacturing facility in South Korea, a substantial portion of our costs will be denominated in the South Korean won. Consequently, fluctuations 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. Although we do not currently enter into foreign exchange hedge transactions, we may do so in the future as our business grows.

Item 4 Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Based on an evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of June 30 2007, the end of the period covered by this report, our Chief Executive Officer and Vice President of Finance have concluded that the disclosure controls and procedures were effective.

Changes in Internal Controls. During the quarter ended June 30, 2007, there was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II

OTHER INFORMATION

Item 1 Legal Proceedings

Securities Class Action and Shareholder Derivative Actions

In April 2006, we reached agreements-in-principle to settle our previously-disclosed consolidated securities class action and shareholder derivative actions for a total of $7.5 million; $7.0 million for the class action and $0.5 million for the derivative actions. In addition, we will commit to maintain or implement various corporate governance measures in connection with the settlement of the derivative actions.

The consolidated class action arose from a number of lawsuits filed in 2004 against our company and certain of our former and current directors and officers on behalf of persons who purchased our common stock between May 21, 2002 and May 13, 2004. These actions, which were brought under the federal securities laws, alleged 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 former chief executive officer. They also alleged that our company and certain of our present and former officers and directors 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. On October 19, 2006, the presiding judge entered an Order giving final approval of the class action settlement. In connection with the settlement, our directors and officers liability insurers contributed $7.0 million to a settlement fund, from which approved claims of eligible class members will be paid in accordance with a court-approved plan of allocation. Taking into account the insurance contribution, the net cost of the settlement to our company is approximately $0.5 million, which is the insurance deductible we paid over several quarters ending in the third quarter of 2005, and which was previously recorded as a charge.

In addition, in May 2004, two shareholder derivative actions were filed in the Superior Court of Orange County, California and later consolidated. Shortly thereafter, one additional shareholder derivative action was filed in the United States District Court for the Middle District of Florida, Tampa Division. These derivative actions were brought by certain shareholders against certain of our present and former officers and directors as well as our company (as a nominal defendant). The suits alleged that the defendants breached various fiduciary duties and otherwise violated state law based primarily upon the same facts and circumstances underlying the federal securities class action. On August 2, 2006, plaintiffs counsel in the California derivative action filed a Notice of Settlement in the Superior Court. The action is presently stayed while the parties counsel negotiate and prepare formal settlement documents. Final documentation and approval of the settlement of the derivative actions remains outstanding.

Department of Justice Investigation

In August 2006, the United States Department of Justice (DOJ) instituted a grand jury proceeding in the Middle District of Florida to investigate, among other things, alleged accounting improprieties in relation to certain of our business transactions and a personal stock transaction by our former chief executive officer. The grand jury proceeding is based primarily upon the same underlying facts and circumstances as alleged in the federal class action and shareholder derivative actions. To date, subpoenas for the production of documents and/or grand jury testimony have been issued to our company and several present and former officers and directors. We are cooperating with the DOJ in its investigation.

Noteholder Lawsuit

On January 3, 2007, we completed a private placement of new 8% Convertible Subordinated Notes due January 2010 (the January 2010 Notes) that, as amended, provided for the issuance of $16.3 million in principal amount of January 2010 Notes. The January 2010 Notes were issued pursuant to a Securities Purchase Agreement, dated January 3, 2007, between our company and the purchasers of the January 2010 Notes (the January Purchase Agreement). Under the terms of the original January Purchase Agreement, we agreed to repay or otherwise satisfy, within 5 days after the closing of the private placement, approximately $15.5 million of our outstanding debt under previously issued promissory notes, including the August 2007 Notes, the Atlantic Note, and New Bridge Notes (the Debt Satisfaction Covenant). We originally agreed to

this covenant based on assurances that a substantial number of holders of the August 2007 Notes would elect to convert their August 2007 Notes at a reduced conversion price following the private placement under a note conversion agreement proposed by us, but most of such holders ultimately elected not to proceed with such conversion. Accordingly, in an effort to preserve funds, we have not yet repaid the indebtedness as required by the original January Purchase Agreement, and in April 2007, we entered into an amendment to the January Purchase Agreement providing that we will have until October 1, 2007 (or such earlier date on which the indebtedness to be repaid is due) to comply with the Debt Satisfaction Covenant.

On March 22, 2007, one of the purchasers of the January 2010 Notes (holding January 2010 Notes in the aggregate amount of $2.0 million) sent us an event of default notice (Event of Default Notice) indicating that we had defaulted under the January Purchase Agreement (and therefore under the January 2010 Note) by failing to comply with the Debt Satisfaction Covenant. This holder did not execute the April 2007 amendment to the January Purchase Agreement. In general, upon a breach of the January 2010 Notes or January Purchase Agreement, a holder of the January 2010 Notes may require us to redeem the January 2010 Notes at a price equal to the greater of (i) the conversion amount to be redeemed and (ii) the product of (A) the conversion rate with respect to such conversion amount in effect at such time as the purchaser of the January 2010 Note delivers an Event of Default Redemption Notice (as defined below) and (B) the closing sale price of our common stock on the date immediately preceding such event of default. Under the terms of the January 2010 Notes and January Purchase Agreement, we have ten (10) business days after the receipt of an Event of Default Notice to cure a default. On April 6, 2007, the holder which sent the Event of Default Notice further sent us an event of default redemption notice (Event of Default Redemption Notice). The Event of Default Redemption Notice states that the holder has elected to require us to redeem its January 2010 Note for a price equal to $2.0 million (the amount of the January 2010 Note) plus accrued and unpaid interest. On April 16, 2007, we were served with a complaint filed by the holder in the Federal District Court in Minnesota to collect this amount. Subsequent to June 30, 2007, on July 17, 2007, we received notice that the purchaser had assigned the Note to Carlyle Liquid, a company controlled by Jack Chitayat, former officer and director of our Company, and that the purchaser would therefore dismiss the pending action. In accordance with the terms of the notice, the action against us was dismissed by the purchaser with prejudice on July 18, 2007.

Item 1A Risk Factors

In addition to the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2006, the following is an additional risk factor that could adversely affect our business, results of operation or financial condition.

We do not anticipate we will be able to repay our 8% unsecured subordinated notes by the August 17, 2007 due date and will be in default with the holders of such notes if we cannot repay them.

We have approximately $3.3 million of principal and accrued interest outstanding under the 8% unsecured subordinated notes (Notes) which will become due August 17, 2007 as of June 30, 2007. We intend to fully repay the amounts due under Notes. However, as of the filing of this document we do not have sufficient funds to repay the Notes by the August 17, 2007 due date. As a result, we will be in default with the holders of the 8% unsecured subordinated notes if we do not satisfy the amounts due under the Notes, unless we receive a waiver of such default. Such a default may have material adverse effect on our operations, financial condition, and results of operations.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3 - Defaults Upon Senior Securities

None.

Item 4 - Submission of Matters to a Vote of Security Holders

None

Item 5 Other Information

There were no matters required to be disclosed in a current report on Form 8-K during the fiscal quarter covered by this report that were not so disclosed.

Item 6 Exhibits

The following documents are filed as an exhibit to this Report:

Exhibit Number	**Description of Document**
31.1	Certification of the President and Chief Executive Officer, Larry Buffington, as required by Section 302 of Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer, Won Chung, as required by Section 302 of Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer, Larry Buffington, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer, Won Chung, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

	LIQUIDMETAL TECHNOLOGIES, INC. (Registrant)
Date: August 14, 2007	/s/ Larry Buffington Larry Buffington President and Chief Executive Officer (Principal Executive Officer)
Date: August 14, 2007	/s/ Won Chung Won Chung Vice President of Finance (Principal Financial and Accounting Officer)

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