

LIQUIDMETAL TECHNOLOGIES INC

Form 10-Q

November 10, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from to

Commission File No. 001-31332

LIQUIDMETAL TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

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

30452 Esperanza
Rancho Santa Margarita, CA 92688
(Address of principal executive offices, zip code)

Registrant's telephone number, including area code: (949) 635-2100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The number of common shares outstanding as of October 31, 2011 was 133,898,215.

LIQUIDMETAL TECHNOLOGIES, INC.
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2011

FORWARD-LOOKING INFORMATION

Statements in this report concerning future sales, expenses, profitability, financial resources, product mix, market demand and product development and other statements in this report concerning the future results of operations, financial condition and business of Liquidmetal Technologies, Inc. ("The Company") are "forward-looking" statements as defined in the Securities Act of 1933 and the Securities Exchange Act of 1934. When used in this report, words such as "expects", "anticipates", "estimates", "believes", "plans", "will", "intend", "can" and similar expressions are intended to identify such forward-looking statements. Investors are cautioned that the Company's actual results in the future may differ materially from those projected in the forward-looking statements due to risks and uncertainties that exist in the Company's operations and business environment, including competition, the need for continued technology development and advances, our ability to obtain financing when needed on terms acceptable to us, or at all, the need for increased acceptance of products and alloys, our ability to continue to develop and extend our brand identity, our ability to anticipate and adapt to a competitive market, our ability to effectively manage rapidly expanding operations, the amount and timing of operating costs and capital expenditures relating to expansion of our business, our operations and infrastructure, our ability to provide superior customer service, our dependence upon key personnel and the like. The Company's most recent filings with the Securities and Exchange Commission ("SEC"), including our Annual Report on Form 10-K/A for the year ended December 31, 2010, contain additional information concerning many of these risk factors, and copies of these filings are available from the Company upon request and without charge.

These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances or on which any such statement is based.

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PART I

FINANCIAL INFORMATION

Item 1 – Financial Statements

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

| | September 30, 2011 (unaudited) | December 31, 2010 |
|--|---|-------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$1,699 | \$5,049 |
| Trade accounts receivable, net of allowance for doubtful accounts of \$0 and \$1 | 1,381 | 631 |
| Notes receivable (Note 1) | 200 | - |
| Inventories | 852 | 1,016 |
| Prepaid expenses and other current assets | 339 | 1,264 |
| Total current assets | 4,471 | 7,960 |
| Other receivable | 1,100 | 1,100 |
| Property, plant and equipment, net | 845 | 796 |
| Long-lived assets to be disposed of (Note 12) | 2,880 | 3,758 |
| Intangible assets, net | 1,017 | 1,121 |
| Other assets | 187 | 310 |
| Total assets | \$10,500 | \$15,045 |
| LIABILITIES AND SHAREHOLDERS' DEFICIENCY | | |
| Current liabilities: | | |
| Accounts payable | \$1,238 | \$2,041 |
| Accrued liabilities | 1,976 | 5,312 |
| Accrued interest of majority-owned subsidiary | 2,575 | 1,754 |
| Deferred revenue | 43 | 8 |
| Short-term debt of majority-owned subsidiary (Note 7) | 1,140 | 480 |
| Long-term debt of majority-owned subsidiary, current portion (Note 7) | 7,618 | 558 |
| Warrant liabilities (Note 8) | 5,932 | 12,819 |
| Other liabilities, current portion (Note 12, Note 16) | 2,880 | 3,626 |
| Total current liabilities | 23,402 | 26,598 |
| Long-term debt of majority-owned subsidiary, net of current portion (Note 7) | - | 7,404 |
| Other long-term liabilities | 2,321 | 681 |
| Total liabilities | 25,723 | 34,683 |
| Shareholders' deficiency: | | |
| Liquidmetal Technologies, Inc. shareholders' deficiency | 1 | 2 |

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Preferred stock, \$0.001 par value; 10,000,000 shares authorized; 1,309,151 and 2,171,760 shares issued and outstanding as of September 30, 2011 and December 31, 2010, respectively

| | | |
|---|------------|------------|
| Common stock, \$0.001 par value; 300,000,000 shares authorized; 133,898,215 and 93,695,375 shares issued and outstanding as of September 30, 2011 and December 31, 2010, respectively | 128 | 88 |
| Additional paid-in capital | 149,756 | 146,870 |
| Accumulated deficit | (167,135) | (168,679) |
| Accumulated other comprehensive income | 1,451 | 1,494 |
| Total Liquidmetal Technologies, Inc. shareholders' deficiency | (15,799) | (20,225) |
| Noncontrolling interest | 576 | 587 |
| Total shareholders' deficiency | (15,223) | (19,638) |
| Total liabilities and shareholders' deficiency | \$ 10,500 | \$ 15,045 |

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

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LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(in thousands, except per share data)
(unaudited)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|--|-----------|---|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenue | | | | |
| Products and services | \$2,913 | \$2,009 | \$8,897 | \$6,911 |
| Licensing | - | 15,300 | 381 | 15,300 |
| Total Revenue | 2,913 | 17,309 | 9,278 | 22,211 |
| Cost of sales | 1,704 | 1,288 | 5,678 | 4,380 |
| Gross profit | 1,209 | 16,021 | 3,600 | 17,831 |
| Operating expenses | | | | |
| Selling, general, and administrative | 1,519 | 2,426 | 4,635 | 5,132 |
| Research and development | 310 | 331 | 1,045 | 804 |
| Settlement expense (Note 15) | 1,127 | - | 1,712 | - |
| Total operating expenses | 2,956 | 2,757 | 7,392 | 5,936 |
| (Loss) gain from operations before non-controlling interest and discontinued operations | (1,747) | 13,264 | (3,792) | 11,895 |
| Change in value of warrants, gain (loss) | 9,970 | (27,199) | 6,887 | (24,361) |
| Change in value of conversion feature, gain | - | 15 | - | 444 |
| Other income | 20 | 18 | 26 | 81 |
| Interest expense | (385) | (2,504) | (1,121) | (5,054) |
| Interest income | 4 | - | 18 | - |
| Net income (loss) before income taxes | 7,862 | (16,406) | 2,018 | (16,995) |
| Income taxes | - | - | - | - |
| Income (loss) before non-controlling interest and discontinued operations | 7,862 | (16,406) | 2,018 | (16,995) |
| Gain on disposal of subsidiary, net (Note 12) | 370 | - | 370 | - |
| Loss from discontinued operations, net (Note 12) | (806) | (334) | (1,254) | (949) |
| Income (loss) from operations before non-controlling interest | 7,426 | (16,740) | 1,134 | (17,944) |
| Net (income) loss attributable to noncontrolling interest | (25) | 114 | 11 | 250 |
| Net income (loss) attributable to Liquidmetal Technologies, Inc. | 7,401 | (16,626) | 1,145 | (17,694) |

| | | | | | | |
|--|---------|---|-----------|-----|---------|-----------|
| Other comprehensive income (loss): | | | | | | |
| Foreign exchange translation (loss) gain | (84 |) | 108 | (43 |) | 1 |
| Comprehensive income (loss) | \$7,317 | | \$(16,518 |) | \$1,102 | \$(17,693 |
| Per common share basic and diluted: | | | | | | |
| Net income (loss) attributable to Liquidmetal Technologies, Inc. - basic | | | | | | |
| Income (loss) from continuing operations | \$0.06 | | \$(0.22 |) | \$0.02 | \$(0.31 |
| Loss from discontinued operations | - | | - | | - | (0.02 |
| Basic income (loss) per share | \$0.06 | | \$(0.22 |) | \$0.02 | \$(0.33 |
| Net income (loss) attributable to Liquidmetal Technologies, Inc. - diluted | | | | | | |
| Income (loss) from continuing operations | \$0.04 | | \$(0.22 |) | \$0.01 | \$(0.31 |
| Loss from discontinued operations | - | | - | | - | (0.02 |
| Diluted income (loss) per share | \$0.04 | | \$(0.22 |) | \$0.01 | \$(0.33 |
| Number of weighted average shares - basic | 129,766 | | 72,928 | | 113,272 | 53,329 |
| Number of weighted average shares - diluted | 175,142 | | 72,928 | | 159,499 | 53,329 |

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

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LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIENCY
For the Nine months Ended September 30, 2011
(in thousands, except share data)
(unaudited)

| | Preferred Shares | Common Shares | Preferred Stock | Common Stock | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Compre- hensive Income | Non- controlling Interest | Total |
|---|---------------------|------------------|--------------------|-----------------|----------------------------------|------------------------|--|---------------------------------|-------------|
| Balance, December 31, 2010 | 2,171,760 | 93,695,375 | \$ 2 | \$ 88 | \$ 146,870 | \$ (168,679) | \$ 1,494 | \$ 587 | \$ (19,638) |
| Conversion of preferred stock (Note 10) | (862,609) | 35,608,406 | (1) | 36 | (35) | - | - | - | - |
| Common stock issuance (Note 10) | - | 4,496,429 | - | 4 | 2,796 | - | - | - | 2,800 |
| Stock-based compensation | - | - | - | - | 116 | - | - | - | 116 |
| Stock options exercised | - | 98,000 | - | - | 12 | - | - | - | 12 |
| Dividend distribution (Note 10) | - | - | - | - | - | 490 | - | - | 490 |
| Dividend distribution to preferred units holder of majority-owned subsidiary | - | - | - | - | 208 | (91) | - | - | 117 |
| Tax distribution by majority-owned subsidiary | - | - | - | - | (211) | - | - | - | (211) |
| Foreign exchange translation gain | - | - | - | - | - | - | (43) | - | (43) |
| Net income (loss) | - | - | - | - | - | 1,145 | - | (11) | 1,134 |
| Balance, September 30, 2011 | 1,309,151 | 133,898,210 | \$ 1 | \$ 128 | \$ 149,756 | \$ (167,135) | \$ 1,451 | \$ 576 | \$ (15,223) |

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

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LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (in thousands)
 (unaudited)

| | For the Nine Months Ended September 30, | |
|--|---|-------------|
| | 2011 | 2010 |
| Operating activities: | | |
| Net income (loss) before discontinued operations: | \$2,029 | \$(16,745) |
| Add: Gain on disposal of subsidiary, net | 370 | - |
| Loss related to discontinued operations | (1,254) | (949) |
| Net income (loss) attributable to Liquidmetal Technologies, Inc. | 1,145 | (17,694) |
| Adjustments to reconcile income (loss) from operations to net cash provided by (used in) operating activities: | | |
| Gain on disposal of assets | 20 | 51 |
| Loss attributable to noncontrolling interest of consolidated subsidiary | (11) | (250) |
| Depreciation and amortization | 278 | 868 |
| Amortization of debt discount | 101 | 3,522 |
| Stock-based compensation | 116 | 101 |
| Bad debt (expense) recovery | (1) | 61 |
| Warranty recovery (expense) | 9 | (176) |
| (Gain) loss from change in value of warrants | (6,887) | 24,361 |
| Gain from change in value of conversion feature | - | (444) |
| Changes in operating assets and liabilities: | | |
| Trade accounts receivable | (750) | (22) |
| Note receivable | (200) | - |
| Inventories | 164 | 22 |
| Prepaid expenses and other current assets | 926 | (107) |
| Long-lived assets to be disposed | 836 | (107) |
| Other assets | 21 | (51) |
| Accounts payable | (754) | (2,132) |
| Accrued liabilities | 673 | (630) |
| Deferred revenue | 34 | 8 |
| Other liabilities | 893 | 521 |
| Net cash (used in) provided by continuing operations | (3,387) | 7,902 |
| Net cash (used in) provided by discontinued operations | (48) | - |
| Net cash (used in) provided by operating activities | (3,435) | 7,902 |
| Investing Activities: | | |
| Purchases of property and equipment | (239) | (190) |
| Investment in patents and trademarks | - | (29) |
| Net cash used in investing activities | (239) | (219) |
| Financing Activities: | | |
| Proceeds from borrowings | 6,160 | 9,563 |

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| | | |
|--|----------|-----------|
| Repayment of borrowings | (5,846) | (17,274) |
| Proceeds from issuance of comon stock | 1 | 2,046 |
| Warrants exercised | - | 1,002 |
| Stock options exercised | 12 | - |
| Minority interest in subsidiary's joint venture | - | 21 |
| Net cash provided by (used in) financing activities | 327 | (4,642) |
| Effect of foreign exchange translation | (3) | (35) |
| Net (decrease) increase in cash and cash equivalents | (3,350) | 3,006 |
| Cash and cash equivalents at beginning of period | 5,049 | 151 |
| Cash and cash equivalents at end of period | \$1,699 | \$3,157 |

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

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LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Nine months Ended September 30, 2011 and 2010

(in thousands, except share data)

(unaudited)

1. Description of Business

Liquidmetal Technologies, Inc. (“Liquidmetal Technologies”) and its subsidiaries (collectively “the Company”) are in the business of developing and marketing products made from amorphous alloys. Liquidmetal Technologies markets and sells Liquidmetal® alloy industrial coatings and also markets and sells products and components from bulk Liquidmetal alloys that can be incorporated into the finished goods of its customers across a variety of industries. The Company also partners with third-party licensees and distributors to develop and commercialize Liquidmetal alloy products. Dollar amounts set forth in these notes to the Company’s condensed consolidated financial statements are presented thousands, unless otherwise indicated.

The Company classifies operations into two reportable segments: Liquidmetal alloy industrial coatings (“Coatings”) and licensing and bulk Liquidmetal alloys (“Licensing and Bulk Alloys”) (see Note 13). Liquidmetal alloy industrial coatings are used primarily as a protective coating for industrial machinery and equipment, such as drill pipes used by the oil drilling industry and boiler tubes used by coal-burning power plants. Licensing and Bulk Liquidmetal alloys include potential market opportunities to sell products and components for medical devices, defense applications, and sporting goods. In addition, the Licensing and Bulk Alloys segment includes tooling, end-user parts, licensing, molds and prototype sampling. Furthermore, such alloys are used to generate research and development services revenue for developing uses related primarily to defense and medical applications as well as potential license fees, royalties, and other compensation from strategic partnering transactions.

In July 2007, the Company transferred substantially all of the assets of its Liquidmetal alloy industrial coatings business to a newly formed, newly capitalized subsidiary named Liquidmetal Coatings, LLC, a Delaware limited liability company (“LMC”), and LMC assumed substantially all of the assets and liabilities of the coatings business. The transfer included the thermal spray coatings assets and liabilities acquired under a purchase agreement with Foster Wheeler Energy Services in June 2007. The Company initially held a 69.25% ownership interest in LMC, however, during 2010, LMC failed to redeem its preferred units by the specified time and was required to issue additional shares to its noteholders, thus diluting the Company’s interest (See Note 11). On December 15, 2010, the Company and two other members of LMC contributed additional capital into LMC in exchange for additional common unit membership. As a result, the Company’s ownership interest in LMC increased to 72.86%. The results of operations of LMC are consolidated and represent the Company’s Coatings segment for financial reporting purposes.

In May 2010, LMC entered into a joint venture agreement with IMCO Alloys Private Limited (“IMCO”) to create a subsidiary named Liquidmetal Coatings Solutions India Private Limited (“LMCSI”) and engage in application services of Liquidmetal products as a protective coating. Initially, under the joint venture agreement, LMC held 80% and IMCO held 20% of the outstanding Class A Shares of LMCSI. LMC may, at its option, subscribe to Class B Shares of the Company. In September 2010, LMC provided approximately \$80 in capital equipment and was issued 358,204 Class B Shares of LMCSI. As a result, LMC holds 88.6% and IMCO holds 11.4% ownership interest in LMCSI as of September 30, 2011. The results of operations of LMCSI are consolidated into LMC and the Company, and are included in the Company’s Coatings segment for financial reporting purposes.

In June 2010, the Company created a wholly owned subsidiary, Advanced Metals Materials (“AMM”), in Weihei China as a holding company for certain assets that were acquired in China. During the first quarter of 2011, AMM started

production and manufacturing of certain bulk Liquidmetal alloys. On August 5, 2011, the Company sold all of the stock of AMM to Innovative Materials Group, which is majority owned by John Kang, the Company's former Chairman, for \$720, of which \$200 was paid in the form of Promissory note due August 5, 2012, bearing an interest rate of 8% per annum (See Note 16), and is included in notes receivable in the Company's condensed consolidated balance sheet. The results of operations of AMM are included as discontinued operations in the Company's Licensing and Bulk Alloys segment for financial reporting purposes.

On August 5, 2010, we entered into a license transaction with Apple, Inc. ("Apple") pursuant to which (i) the Company contributed substantially all of our intellectual property assets to a newly organized special purpose, wholly-owned subsidiary, called Crucible Intellectual Property, LLC ("CIP"), (ii) for a one time license fee, CIP granted to Apple a perpetual, worldwide, fully-paid, exclusive license to commercialize such intellectual property in the field of consumer electronic products, as defined in the license agreement, and (iii) CIP granted back to the Company a perpetual, worldwide, fully-paid, exclusive license to commercialize such intellectual property in all other fields of use. Intellectual property assets that are newly developed by the Company and any costs associated with the development of new and existing assets are recorded in CIP. The assets, liabilities and results of operations of CIP are included in the Company's Licensing and Bulk Alloys segment for financial reporting purposes and any intercompany transactions are eliminated upon consolidation.

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LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Nine months Ended September 30, 2011 and 2010

(in thousands, except share data)

(unaudited)

The Company currently owns a 166,000 square foot manufacturing facility (and leases the underlying ground) in Pyongtaek, South Korea, which became operational in the third quarter of 2002. In November 2010, the Company ceased operations and shut down the South Korean subsidiary and classified it as discontinued operations in the condensed consolidated financial statements. The Company is seeking to either sell its manufacturing facility or dispose of the subsidiary through a private sale (See Note 12).

2. Basis of Presentation and Accounting Policies

The accompanying condensed consolidated balance sheet as of December 31, 2010, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”) for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. All intercompany balances and transactions have been eliminated. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for any future periods or the year ending December 31, 2011. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's Form 10-K/A filed with the Securities and Exchange Commission on April 5, 2011.

Certain items from prior year have been reclassified to conform to the current year presentation.

Revenue Recognition

Revenue is recognized pursuant to applicable accounting standards including Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 605 (“ASC 605”), Revenue Recognition. ASC 605 summarize certain points of the SEC staff’s views in applying generally accepted accounting principles to revenue recognition in financial statements and provide guidance on revenue recognition issues in the absence of authoritative literature addressing a specific arrangement or a specific industry.

The Company’s revenue recognition policy complies with the requirements of ASC 605. Revenue is recognized when i) persuasive evidence of an arrangement exists, ii) delivery has occurred, iii) the sales price is fixed or determinable, iv) collection is probable and v) all obligations have been substantially performed pursuant to the terms of the arrangement. Revenues primarily consist of the sales and application of coatings materials, sales and prototyping of Liquidmetal mold and bulk alloys, licensing and royalties for the use of the Liquidmetal brand and bulk Liquidmetal alloys. Revenue is deferred and included in liabilities when the Company receives cash in advance for services not yet performed, goods not yet delivered, or if the licensing term has not begun.

License revenue arrangements in general provide for the grant of certain intellectual property rights for patented technologies owned or controlled by the Company. These rights typically include the grant of an exclusive or non-exclusive right to manufacture and/or sell products covered by patented technologies owned or controlled by the Company. The intellectual property rights granted may be perpetual in nature, extending until the expiration of the related patents, or can be granted for a defined period of time.

Licensing revenues that are one time fees upon the granting of the license are recognized when i) the license term begins in a manner consistent with the nature of the transaction and the earnings process, ii) when collectability is reasonably assured or upon receipt of an upfront fee, and iii) when all other revenue recognition criteria have been met. Pursuant to the terms of these agreements, the Company has no further obligation with respect to the grant of the license. Licensing revenues that are related to royalties are recognized as the royalties are earned over the related period.

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LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Nine months Ended September 30, 2011 and 2010

(in thousands, except share data)

(unaudited)

Translation of Foreign Currency

The Company applies FASB ASC 830, Foreign Currency, for translating foreign currency into US dollars in our consolidation of the financial statements. Upon consolidation of the Company's foreign subsidiaries into the Company's condensed consolidated financial statements, any balances with the subsidiaries denominated in a foreign currency are translated at the exchange rate at period-end. The financial statements of Liquidmetal Technologies Korea have been translated based upon Korean Won as the functional currency. The resulting translation adjustment is included in other comprehensive (loss) income.

Recent Accounting Pronouncements

In June 2011, the FASB, issued guidance regarding the presentation of comprehensive income. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. Instead, an entity will be required to present either a continuous statement of net income and other comprehensive income or in two separate but consecutive statements. The updated guidance is effective on a retrospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The Company is evaluating the impact of this guidance on its financial statements.

In May 2011, the FASB issued additional guidance on fair value measurements that clarifies the application of existing guidance and disclosure requirements, changes certain fair value measurement principles and requires additional disclosures about fair value measurements. The updated guidance is effective on a prospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The Company is evaluating the impact of this guidance on its financial statements.

In April 2010, the FASB codified the consensus reached in Emerging Issues Task Force Issue No. 08-09, "Milestone Method of Revenue Recognition." FASB ASU No. 2010-17 "Revenue Recognition – Milestone Method (Topic 605)" provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research and development transactions. FASB ASU No. 2010 – 17 is effective on a prospective basis for milestones achieved after the adoption date. The Company's adoption of this guidance on January 1, 2011 did not have a significant impact on its 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 the Company's present or future consolidated financial statements.

3. Liquidity

The Company has experienced losses from operations during most of the past several years and has an accumulated deficit of \$167,135 as of September 30, 2011. Cash used in operations for the nine months ended September 30, 2011 was \$3,435. As of September 30, 2011, the Company's principal source of liquidity is \$1,699 of cash and \$1,381 of trade accounts receivable.

The Company anticipates that its current capital resources, together with anticipated cash from operations, will be sufficient to fund its operations through the fourth quarter of 2011. However, it will require additional funding at or prior to that time in order to continue operations as a going concern. The Company is actively seeking additional sources of capital through strategic and other potential transactions. Management cannot guarantee that adequate funds will be available when needed, and if the Company does not receive sufficient capital, it will be required to alter or reduce the scope of its operations and/or cease operations altogether.

On August 5, 2011, the Company sold all of the stock of Advanced Metals Materials (“AMM”) to Innovative Materials Group, which is majority owned by John Kang, the Company’s former Chairman, for \$720, of which \$200 was paid in the form of Promissory note due August 5, 2012, bearing an interest rate of 8% per annum (See Note 16) and is included in notes receivable in the Company’s condensed consolidated balance sheet. The results of operations of AMM are included as discontinued operations in the Company’s Licensing and Bulk Alloys segment for financial reporting purposes.

On May 27, 2011, Virginia Electric and Power Company (“Dominion”) filed a lawsuit against LMC’s wholly owned subsidiary, Liquidmetal Coatings Solutions, LLC. (“LMCS”), in the County of Chesterfield Virginia claiming damages of \$2,523. Dominion is alleging that LMCS breached its contract with Dominion by not complying with the coating requirements set forth in the contract. The lawsuit filed by Dominion is limited to LMCS and to claims against LMC and LMCS’ assets only. On July 11, 2011, LMCS responded by filing a counterclaim against Dominion for a breach of contract. In the counterclaim, LMCS claimed damages of \$1,823 and requested that Dominion be required to pay the remaining balance on the contract.

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As of September 30, 2011, the Company's majority owned subsidiary, LMC, has \$11,332 of outstanding debt, including accrued interest payable (see Note 7). All such LMC debt is secured only by the assets of LMC. Additionally, LMC has \$2,128 of preferred membership units and unpaid distribution outstanding as of September 30, 2011 (See Note 11). If by December 31, 2011 the preferred membership units are not redeemed in full, LMC is required to initiate a private unit offering to the then-existing members of LMC for an amount of proceeds that will be adequate to fully redeem the preferred membership units. If, by January 31, 2012, LMC is still not able to redeem the preferred membership units in full, the preferred membership unit holders shall receive additional common membership units equal to 12% of the common membership units then outstanding and an additional 2% of the common membership units per quarter until the preferred membership units are redeemed in full. As a result, the Company has the potential to have its ownership percentage of LMC diluted in a manner that would result in LMC no longer being a majority-owned subsidiary at which point the Company would deconsolidate LMC for financial reporting purposes.

As of September 30, 2011, the Company has outstanding liens of approximately \$2,180 against assets located in its South Korean subsidiary by various creditors related to a total of \$2,880 of past-due trade payables and accrued liabilities that are included in other current liabilities on the Company's condensed consolidated balance sheets. The Company is currently working to resolve the matter with each creditor by seeking a forbearance or compromise. If it cannot repay the amounts due or obtain forbearance or compromise, the creditors may seek to foreclose on the Company's assets located in South Korea. The Company's obligations on such liens are limited to the value of the assets of the South Korean subsidiary. The South Korean subsidiary is classified as a discontinued operations in the condensed consolidated financial statements, and the Company is seeking to either sell its manufacturing facility or dispose of the subsidiary through a private sale (See Note 12). Additional liabilities may be incurred from the sale as well as interest and penalties on liens but are not yet quantifiable as of September 30, 2011.

4. Fair Value of Financial Instruments

The fair value of cash and cash equivalents and trade receivables approximate carrying value(s) due to their short maturity. The estimated fair value of long-term debt was determined by using rates currently available to us for debt with similar terms and remaining maturities.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Entities are required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value based upon the following fair value hierarchy:

Level 1 — Quoted prices in active markets for identical assets or liabilities;

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted — prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company has one Level 2 financial instrument, warrant liabilities, that is recorded at fair value on a recurring basis periodically. The fair value for the warrants as of September 30, 2011 and December 31, 2010 was \$5,932 and \$12,819, respectively. The warrant liabilities are recorded at fair value based on upon valuation models which utilize relevant factors such as expected life, volatility of the Company's stock prices, risk free interest and dividend rate.

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The Company believes that the estimated fair value of the debt of its subsidiary is not significantly different than the carrying value of the debt.

5. Inventories

Inventories are accounted for using the moving average basis and at standard cost, which approximate cost on a first-in, first-out basis and are valued at the lower of cost or market. Inventories were comprised of the following:

| | September 30, 2011 (Unaudited) | December 31, 2010 |
|-------------------|--------------------------------------|----------------------|
| Raw materials | \$ 672 | \$ 267 |
| Finished goods | 180 | 749 |
| Total inventories | \$ 852 | \$ 1,016 |

6. Product Warranty

Management estimates product warranties as a percentage of certain coatings applications sales earned during the period. As of September 30, 2011, the Company used 1% of coatings applications sales as an estimate of warranties to be claimed. The percentage is based on industry averages and historical information.

The following is a reconciliation of the changes in the Company's product warranty liability:

| | For the Three Months Ended September 30, 2011 | For the Three Months Ended September 30, 2010 |
|----------------------------|---|---|
| Balance, June 30 | 243 | 24 |
| Expense accrual | 9 | 2 |
| Warranty Charges | (8) | - |
| Balance, September 30, | 244 | 26 |
| | For the Nine Months Ended September 30, 2011 | For the Nine Months Ended September 30, 2010 |
| Balance, January 1, | 243 | 46 |
| Expense accrual (recovery) | 9 | (19) |
| Warranty Charges | (8) | (1) |
| Balance, September 30, | 244 | 26 |

7. Debt of Majority-Owned Subsidiary

C3 Debt

On July 24, 2007, the Company completed a \$11,500 financing transaction (the “Transaction”). In the Transaction, the Company transferred substantially all of the assets of the Company’s Liquidmetal Coatings 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.

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LMC was capitalized through a \$6,500 subordinated debt and equity investment by C3 Capital Partners, L.P. (“C3”), C3 Capital Partners II, L.P. (“C3 II”, and with C3, the “C3 entities”) and a \$5,000 senior credit facility with Bank Midwest, N.A., which was fully repaid in 2010. This debt and equity resulted in cash proceeds of \$11,102 after related debt issuance costs of \$398, which proceeds LMC used to purchase all of the assets and liabilities from the Company. The Company incurred an additional \$459 in issuance costs directly related to the debt issuance. As a result, \$857 was recorded as deferred debt issuance costs to be amortized over the life of the debt. Interest expense for the amortization of debt issuance cost was \$35 and \$101 for the three and nine months ended September 30, 2011, respectively. Interest expense for the amortization of debt issuance cost was \$100 and \$190 for the three and nine months ended September 30, 2010, respectively.

In the Transaction, LMC also entered into a Securities Purchase Agreement, dated July 24, 2007 (the “Securities Purchase Agreement”), with the C3 entities and Liquidmetal Coatings Solutions, LLC, a wholly owned subsidiary of LMC that will operate the thermal spray coatings business (“LMCS”). Pursuant to the Securities Purchase Agreement, LMC issued to the C3 entities subordinated promissory notes in the aggregate principal amount of \$6,500 (the “Subordinated Notes”). Under the Securities Purchase Agreement, the C3 entities have the right, beginning on July 24, 2012 (or, if earlier, upon a default by LMC under the Subordinated Notes or Securities Purchase Agreement) to require LMC to purchase the C3 entities’ membership interests in LMC for a purchase price equal to their pro rata portion of the greater of (i) the appraised fair market value of LMC or (ii) six times LMC’s trailing 12-month earnings before interest, taxes, depreciation, and amortization, less funded debt.

In connection with the Securities Purchase Agreement and the Subordinated Notes, the Company and LMC entered into pledge agreements with the C3 entities in which the Company pledged its membership interest in LMC to secure the obligations under the notes and LMC pledged its membership interests in LMCS to secure its obligations under the notes. LMC and LMCS also granted to the C3 entities a blanket security interest in all of their assets to secure their obligations under the Subordinated Notes.

The Subordinated Notes have a maturity date of July 20, 2012 with no required principal payments before maturity other than upon specified triggering events, such as a change in control of LMC. Interest accrues at an annual rate of 14%, with 12% interest being payable monthly beginning September 2007 and the remaining 2% interest being payable at maturity. Since March 2009, LMC has failed to pay the monthly interest and has incurred additional 12% interest on the unpaid interest as penalty. As of September 30, 2011 and December 31, 2010, LMC has outstanding \$2,550 and \$1,737 of unpaid interest outstanding, respectively, and \$25 and \$17 of penalty on unpaid interest, respectively, which are all included in accrued interest of majority-owned subsidiary on the Company’s condensed consolidated balance sheets.

The gross outstanding loan balance, including accrued interest and penalty interest payable upon maturity of the Subordinated Notes totaled \$9,643 and \$8,716 as of September 30, 2011 and December 31, 2010, respectively. Interest expense incurred under the Subordinated Notes totaled \$247 and \$754 for the three and nine months ended September 30, 2011, respectively. Interest expense incurred under the Subordinated Notes totaled \$248 and \$718 for the three and nine months ended September 30, 2010, respectively.

Enterprise Debt

On June 25, 2010, LMC entered into a Credit Agreement (“Credit Agreement”) with Enterprise Bank & Trust (“Enterprise”). The Credit Agreement provides for a total loan availability of \$3,700, consisting of a \$1,500 term loan (“Term Note”), a revolving loan of up to \$2,000 (“Revolving Note”), and equipment loans (“Equipment Note”) of up to \$200. On June 22, 2011, the Credit Agreement was amended to modify certain terms and provide for (i) a revision of the maturity date for the Term Note to December 22, 2011, (ii) an extension of the maturity date of Revolving Note to December 22, 2011, and (iii) an adjustment of interest rate for the Term Note to 7%, the Revolving Note to 7.5% per annum and the Equipment Note to 6.75%.

LMC is required to make monthly principal payments of \$50 per month and a balloon payment of the remaining amount of the Term Note upon maturity. Interest payments under the Term Note are due at the beginning of each month and upon maturity of the Term Note. Borrowing availability under the Revolving Note is based on a percentage of LMC’s eligible receivables. LMC has the right to prepay the Term Note, the Revolving Note and the Equipment Note, in whole or in part, at any time without penalty or premium.

The Credit Agreement, as amended, is secured by a blanket security interest in all of LMC’s assets. Pursuant to a subordination agreement between the C3 entities and Enterprise, Enterprise’s security interest in the assets is senior to the C3 entities’ security interest in the same assets.

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As of September 30, 2011 and December 31, 2010, the gross outstanding loan balance under the Term Note totaled \$550 and \$1,000, respectively, and the gross outstanding loan balance under the Revolving Note totaled \$1,140 and \$480, respectively. There are no amounts outstanding for the Equipment Note as of September 30, 2011 and December 31, 2010. The Term Note is included in long-term debt of majority-owned subsidiary, current portion and long-term debt of majority-owned subsidiary, net of current portion on the Company's condensed consolidated balance sheets as of September 30, 2011 and December 31, 2010, respectively, and the Revolving Note is presented as short-term debt of majority-owned subsidiary on the Company's condensed consolidated balance sheets. Interest expense incurred under the Term Note totaled \$11 and \$40, for the three and nine months ended September 30, 2011, respectively. Interest expense incurred under the Revolving Note totaled \$17 and \$43, for the three and nine months ended September 30, 2011, respectively.

8. Warrant Liabilities

Pursuant to FASB ASC 480-10-25-14, Distinguishing Liabilities from Equity, the Company is required to report the value of its warrant as a liability at fair value and record the changes in the fair value of the warrant liabilities as a gain or loss in its statement of operations. As of September 30, 2011 and December 30, 2010, the Company has 44,707,976 and 47,232,459 warrants outstanding, respectively. As of September 30, 2011 and December 31, 2010, the Company has outstanding warrant liabilities of \$5,932 and \$12,819, respectively. The change in fair value of warrants resulted in gains of \$9,970 and \$6,887 for the three and nine months ended September 30, 2011, respectively, and losses of \$27,199 and \$24,361 for the three and nine months ended September 30, 2010, respectively. The fair value of warrants outstanding for the following periods was computed using the Black-Scholes model under the following assumptions:

| | September 30, 2011 | December 31, 2010 |
|-------------------------|--------------------|-------------------|
| Expected life in years | 0.26 - 3.83 | 0.38 - 4.58 |
| Volatility | 67% - 153 % | 154 % |
| Risk-free interest rate | 0.02% - 0.42 % | 0.19% - 2.01 % |
| Dividend rate | 0 | 0 |

9. Stock Compensation Plan

During the three and nine months ended September 30, 2011, under the Company's 2002 Equity Incentive Plan (the "2002 Plan") which provides for the grant of stock options to officers, employees, consultants and directors of the Company and its subsidiaries, the Company granted options to purchase 20,000 and 40,000 shares, respectively, of the Company's common stock for an average price of \$0.63. All options granted under this plan had exercise prices that were equal to the fair market value on the date of grant.

10. Shareholder's Equity

In June 2006, the Company entered into a joint venture agreement with SAGA, SpA in Padova, Italy ("SAGA"), a specialist precision parts manufacturer. The joint venture was named Liquidmetal SAGA Italy, Srl ("LSI"). On August 6, 2010, SAGA filed a litigation case against the Company claiming damages of \$3,200 for payment on an alleged

loan and for alleged breach of contract in connection with the formation of LSI.

On April 6, 2011 (the “Effective Date”), the Company entered into a Settlement and Equity Interest Purchase Agreement with SAGA pursuant to which (i) the joint venture between the Company and SAGA was terminated, (ii) the Company and SAGA both agreed to cause certain pending legal action against each other to be dismissed with prejudice, (iii) the Company paid SAGA \$2,800 in the form of 4,496,429 restricted shares (“Shares”) of the Company’s common stock in exchange for SAGA’s equity interest in LSI, and (iv) the Liquidmetal technology license to LSI was terminated. As of September 30, 2011 and December 31, 2010, a total of \$0 and \$3,100, respectively, were included in accrued liabilities on the Company’s condensed consolidated balance sheets for the settlement and legal fees.

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The number of Shares issued to SAGA was based on the 30 day trailing, volume weighted average price of the Company's stock as of the Effective Date. An additional provision of the SAGA settlement and Equity Interest Purchase Agreement was the obligation of the Company to issue a promissory note to compensate for a decrease in the market price of the Company's common stock over a six month period from the Effective Date of the settlement. As such, on September 30, 2011, the Company recorded a contingent liability of \$1,712, which is included in other long-term liabilities on the Company's condensed consolidated balance sheets, to account for the decrease in the market price of the Company's common stock. On October 10, 2011, the Company issued to SAGA a promissory note in the principal amount of \$1,712 due October 10, 2012 ("Maturity Date") bearing interest of 8% per annum. All of the principal and accrued interest is due on the Maturity Date.

On May 1, 2009, pursuant to a Securities Purchase and Exchange Agreement, the Company issued 500,000 shares of convertible Series A-1 Preferred Stock with an original issue price of \$5.00 per share and 2,625,000 shares Series A-2 Preferred Stock with an original issue price of \$5.00 per share as part of a financing transaction. The Series A-1 Preferred Stock and Series A-2 Preferred Stock are convertible into the Company's common stock at conversion price of \$0.10 and \$0.22 per common share, respectively. In connection with the Series A-1 and Series A-2 Preferred Stock issuance, the Company issued warrants to purchase 42,329,407 shares of the Company's common stock at an exercise price of \$0.50 per share, which was subsequently adjusted to \$0.49 per share due to an anti-dilution calculation, and an expiration date of January 3, 2012.

In October 2009, the Company entered into an agreement with various investors to issue 180,000 shares of Series A-1 Preferred Stock with an original issue price of \$5.00 per share which are convertible into the Company's common stock at a conversion price of \$0.10 per common share. In connection with this issuance, the Company issued warrants to purchase up to 4,500,000 shares of common stock with an exercise price of \$0.50 per share, which was subsequently adjusted to \$0.49 per share due to an anti-dilution calculation, and an expiration date of January 3, 2012.

The preferred stock accrued cumulative dividends at an annual rate of 8%, which was payable semi-annually. In conjunction with the Series A-1 Preferred Stock conversion the Company granted in-kind dividends to the preferred stock holders, which were simultaneously converted into 1,365,863 shares of common stock. As of September 30, 2011 and December 31, 2010, the Company has accrued dividends of \$573 and \$1,063, respectively, included in accrued liabilities. The dividends were payable in cash or in kind by the issuance by the Company of additional preferred stock, only when and as declared by the Company's Board of Directors.

On November 3, 2010, the Company filed an Amended and Restated Certificate of Designations, Preferences, and Rights (the "Amended Designation") for the Company's Series A-1 and Series A-2 Preferred Stock (the "Series A Preferred Stock"). The Amended Designation was approved by the requisite vote of the holders of the Company's Series A Preferred Stock and was filed with the Delaware Secretary of State in accordance with a Consent Agreement entered into between the Company and the holders of 2/3 of the Series A Preferred Stock (the "Consent Agreement"). The Amended Designation amended the terms of the Series A Preferred Stock by (i) providing that dividends ceased accruing thereon as of June 1, 2010, (ii) the liquidation preference and corresponding conversion value on the Series A Preferred Stock was increased from 1.0 to 1.08 of the sum of the issue price and accrued but unpaid dividends, (iii) the Series A Preferred Stock was now mandatorily convertible at any time at the option of the Company without condition, and (iv) the Series A Preferred Stock will no longer have any price-based anti-dilution

rights. The Consent Agreement provided that, in exchange for voting in favor of the Amended Designation, the warrants held by the holders signing the Consent Agreement (to the extent such warrants were issued in connection with the original issuance of the Series A Preferred Stock) would be extended to an expiration date of July 2015 and the price-based anti-dilution rights on such warrants were removed.

As of September 30, 2011 and December 31, 2010, and after certain conversions, the Company has 256,371 and 658,614 shares of the Series A-1 Preferred Stock outstanding, respectively. As of September 30, 2011 and December 31, 2010, and after certain conversions, the Company has 1,052,780 and 1,513,146 shares of the Series A-2 Preferred Stock outstanding, respectively.

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11. Preferred Units of Subsidiary

On February 22, 2008, LMC completed a transaction under which it issued and sold \$2,500 in preferred membership units to two minority members of LMC. Immediately following the sale of the preferred membership units, the subscription proceeds (after a 1% transaction fee) were distributed to LMC's common unit members, and as a result of such distribution, the Company received approximately \$1,714 in the distribution. The preferred membership units issued by LMC have an accruing priority return of 14% per year that are priority over any distribution made by LMC and may be redeemed at any time within four years of issuance through cash payment or distribution in excess of the 14% priority return. LMC is required to redeem the preferred membership units on or before the second anniversary of the issue date and failure to redeem the preferred membership units at the specified time will result in the preferred membership unit holders receiving an additional 2% of common membership units per quarter until the preferred membership units are redeemed in full. An additional 2,767 common membership units were issued during 2010 as a result of LMC's non-redemption.

On December 15, 2010, the Company and two other members of LMC contributed an additional \$1,444 into LMC in exchange for additional common membership units. The proceeds of the contribution were used to make a distribution to the two holders of the preferred membership units in the aggregate amount of \$813, which represented the accrued but unpaid priority return of the preferred membership units, and to redeem an aggregate of 381 preferred membership units owned by the two holders at an aggregate redemption price of \$1,194. Additionally, if by December 31, 2011, the preferred membership units are not redeemed in full, LMC is required to initiate a private unit offering to the then-existing members of LMC for an amount of proceeds that will be adequate to fully redeem the preferred membership units. If by January 31, 2012, LMC is still not able to redeem the preferred membership units in full, the preferred membership unit holders shall receive additional common membership units equal to 12% of the common membership units then outstanding and an additional 2% of the common membership units per quarter until the preferred membership units are redeemed in full.

As of September 30, 2011, LMC has redeemed \$592 of its preferred membership units, has paid distributions of \$1,094 in priority returns to the preferred membership unit holders and has unpaid distributions of \$212 in priority return to the preferred membership unit holders. The total preferred membership units outstanding, including unpaid distributions, are \$2,128 and \$1,785 as of September 30, 2011 and December 31, 2010, respectively.

12. Discontinued Operations and Long-Lived Assets to be Disposed of

In June 2010, the Company created a wholly owned subsidiary, Advanced Metals Materials ("AMM"), in Weihei China as a holding company for certain assets that were acquired in China. During the first quarter of 2011, AMM started production and manufacturing of certain bulk Liquidmetal alloys. On August 5, 2011, the Company sold all of the stock of AMM to Innovative Materials Group, which is majority owned by John Kang, the Company's former Chairman, for \$720, of which \$200 was paid in the form of a Promissory note due August 5, 2012, bearing an interest rate of 8% per annum (See Note 16) and is included in notes receivable in the Company's condensed consolidated balance sheet. The results of operations of AMM are included as discontinued operations in the Company's Bulk Alloys segment for financial reporting purposes.

Summarized operating results of AMM's discontinued operations are as follows:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|------|--|------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenue | \$ 66 | \$ - | \$ 200 | \$ - |
| Gain on disposal of subsidiary, net | 370 | - | 370 | - |
| Loss from discontinued operations, net | (87) | - | (370) | - |

In 2003, the Company set up a manufacturing plant in South Korea, Liquidmetal Technologies Korea ("LMTK"), to handle its bulk Liquidmetal alloys business which includes manufacturing and selling components made out of bulk alloys. During 2010 and 2009, LMTK experienced net losses as a result of the continuing economic downturn. These losses and uncertainty surrounding its future cash flows led the Company to evaluate its investment for recoverability. As a result, in November 2010, the Company decided to discontinue LMTK's operations.

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As of September 30, 2011, the Company has outstanding liens of approximately \$2,180 against LMTK assets by various creditors that resulted from a total of \$2,880 of past-due trade payables and accrued liabilities that are included in other current liabilities on the Company's condensed consolidated balance sheets. The Company is currently working to resolve the matter with each creditor by seeking a forbearance or compromise. If the Company cannot repay the amounts due or obtain a forbearance or compromise, the creditors may seek to foreclose on the Company's assets located in South Korea. The Company's obligations on such liens are limited to the value of the assets of the South Korean subsidiary. The South Korean subsidiary is classified as a discontinued operations in the condensed consolidated financial statements, and the Company is seeking to either sell its manufacturing facility or dispose of the subsidiary through a private sale. Additional liabilities may be incurred from the sale as well as interest and penalties on liens but are not yet quantifiable as of September 30, 2011.

Summarized operating results of LMTK's discontinued operations are as follows:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|--------|--|--------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenue | \$ - | \$ - | \$ - | \$ 4 |
| Loss from discontinued operations, net | (719) | (334) | (884) | (949) |

The assets and liabilities of LMTK are included in long-lived assets to be disposed and other liabilities, current portion, respectively in the accompanying condensed consolidated balance sheets and consist of the following:

| | September 30, 2011 | December 31, 2010 |
|--|-----------------------|----------------------|
| ASSETS OF LMTK | | |
| Restricted cash | \$ - | \$ 46 |
| Prepaid expenses and other current assets | 361 | 375 |
| Property, plant and equipment, net | 2,471 | 3,288 |
| Other assets | 48 | 49 |
| Total of long-lived assets to be disposed | \$ 2,880 | \$ 3,758 |
| LIABILITIES OF LMTK | | |
| Accounts payable | 2,203 | 2,404 |
| Accrued expenses | 677 | 702 |
| Total liabilities of discontinued operations | \$2,880 | \$3,106 |

For the three and nine months of September 30, 2011, the Company has recorded impairment charges of \$701 and \$836, respectively, related to the assets of LMTK and believes that the amounts above have been recorded at their net realizable value.

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13. Segment Reporting and Geographic Information

In accordance with ASC 280, Segment Reporting, summarized financial information concerning the Company's reportable segments is shown in the following tables:

| | Coatings | Licensing and Bulk Alloy | Segment Totals |
|---------------------------------------|----------|--------------------------------|-------------------|
| Three months ended September 30, 2011 | | | |
| Revenue from external customers | \$2,801 | \$112 | \$2,913 |
| Gross profit | 1,140 | 69 | 1,209 |
| Total segment income | 93 | 46 | 139 |
| Three months ended September 30, 2010 | | | |
| Revenue from external customers | \$1,839 | \$15,470 | \$17,309 |
| Gross profit | 671 | 15,350 | 16,021 |
| Total segment (loss) income | (311) | 14,970 | 14,659 |
| Nine months ended September 30, 2011 | | | |
| Revenue from external customers | \$8,552 | \$726 | \$9,278 |
| Gross profit | 3,086 | 514 | 3,600 |
| Total segment loss | (41) | (385) | (426) |
| Nine months ended September 30, 2010 | | | |
| Revenue from external customers | \$6,383 | \$15,828 | \$22,211 |
| Gross profit | 2,224 | 15,607 | 17,831 |
| Total segment (loss) income | (754) | 14,751 | 13,997 |

Reconciling information between reportable segments and the Company's consolidated totals is shown in the following table:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|----------|--|----------|
| | 2011 | 2010 | 2011 | 2010 |
| Total segment income (loss) | \$139 | \$14,659 | \$(426) | \$13,997 |
| General and administrative expenses, excluded | (757) | (1,755) | (2,357) | (3,132) |
| Consolidated (loss) income before interest, income taxes, and noncontrolling interests | \$(618) | \$12,904 | \$(2,783) | \$10,865 |

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| | | | | |
|---|----------|-------------|----------|-------------|
| Settlement expense | (1,127) | - | (1,712) | - |
| Change in value of warrants, gain (loss) | 9,970 | (27,199) | 6,887 | (24,361) |
| Change in value of conversion feature, gain | - | 15 | - | 444 |
| Other income | 20 | 18 | 26 | 81 |
| Interest expense | (17) | (2,144) | (48) | (4,024) |
| Interest income | 4 | - | 18 | - |
| (Income) loss attributable to noncontrolling interest | (25) | 114 | 11 | 250 |
| Loss from discontinued operations, net | (806) | (334) | (1,254) | (949) |
| Consolidated net income (loss) attributable to Liquidmetal Technologies, Inc. | \$7,401 | \$(16,626) | \$1,145 | \$(17,694) |

Excluded general and administrative expenses are attributable to the Company's corporate headquarters. These expenses primarily include corporate salaries, consulting fees, professional fees and facility costs. Research and development expenses are included in the operating costs of the segment that performed the research and development.

The Company had one customer in the Coatings segment representing 11% of its revenue for the nine months ended September 30, 2011 and one customer in the Licensing and Bulk Alloys segment representing 69% of its revenue for the nine months ended September 10, 2010. During the three and nine months ended September 30, 2011, the Company had revenue from sales to companies outside of the United States of \$1,461 and \$3,153, respectively, mostly for LMC coating materials. During the three and nine months ended September 30, 2010, the Company had revenue from sales to companies outside of the United States of \$322 and \$1,489, respectively.

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For the Nine months Ended September 30, 2011 and 2010

(in thousands, except share data)

(unaudited)

Long-lived assets include net property, plant, and equipment, and net intangible assets. The Company had long-lived assets, including long-lived assets to be disposed of other than by sale, of \$3,172 and \$3,288 at September 30, 2011 and December 31, 2010, respectively, that are located outside of the United States.

Reconciling information between reportable segments and the Company's consolidated totals is shown in the following table:

| | September 30, 2011 | December 31, 2010 |
|---|--------------------------|-------------------------|
| Coatings | \$4,816 | \$2,339 |
| Bulk Alloys | 166 | 1,757 |
| Total segment assets | \$4,982 | \$4,096 |
| Cash and cash equivalents | 1,002 | 5,072 |
| Prepaid expenses and other current assets | 349 | 787 |
| Other property, plant and equipment | 168 | 37 |
| Intangible assets, net | 1,002 | 1,105 |
| Other assets | 117 | 190 |
| Long-lived assets to be disposed of | 2,880 | 3,758 |
| Total consolidated assets | \$10,500 | \$15,045 |

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

14. 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.

The following were outstanding at September 30, 2011 and were included in the computation of diluted EPS for the three and nine months ended September 30, 2011.

| | For the Three Months Ended September 30, 2011 | For the Nine Months Ended September 30, 2011 |
|-------------------------------|--|---|
| Weighted average basic shares | 129,766,480 | 113,271,712 |

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Effect of dilutive securities:

| | | |
|--|-------------|-------------|
| Stock options | 2,244,401 | 2,648,101 |
| Warrants ("in the money") | - | 447,658 |
| Conversion of preferred stocks and dividends | 43,131,169 | 43,131,169 |
| Weighted average diluted shares | 175,142,050 | 159,498,640 |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Nine months Ended September 30, 2011 and 2010

(in thousands, except share data)

(unaudited)

15. Commitments and Contingencies

In June 2006, the Company entered into a joint venture agreement with SAGA, SpA in Padova, Italy (“SAGA”), a specialist precision parts manufacturer. The joint venture was named Liquidmetal SAGA Italy, Srl (“LSI”). On August 6, 2010, SAGA filed a litigation case against the Company claiming damages of \$3,200 for payment on an alleged loan and for alleged breach of contract in connection with the formation of LSI.

On April 6, 2011 (the “Effective Date”), the Company entered into a Settlement and Equity Interest Purchase Agreement with SAGA pursuant to which (i) the joint venture between the Company and SAGA was terminated, (ii) the Company and SAGA both agreed to cause certain pending legal action against each other to be dismissed with prejudice, (iii) the Company paid SAGA \$2,800 in the form of 4,496,429 restricted shares (“Shares”) of the Company’s common stock in exchange for SAGA’s equity interest in LSI, and (iv) the Liquidmetal technology license to LSI was terminated. As of September 30, 2011 and December 31, 2010, a total of \$0 and \$3,100, respectively, were included in accrued liabilities on the Company’s condensed consolidated balance sheets for the settlement and legal fees.

The number of Shares issued to SAGA was based on the 30 day trailing, volume weighted average price of the Company’s stock as of the Effective Date. An additional provision of the SAGA settlement and Equity Interest Purchase Agreement was the obligation of the Company to issue a promissory note to compensate for a decrease in the market price of the Company’s common stock over a six month period from the Effective Date of the settlement. As such, on September 30, 2011, the Company recorded a contingent liability of \$1,712, which is included in other long-term liabilities on the Company’s condensed consolidated balance sheets, to account for the decrease in the market price of the Company’s common stock. On October 10, 2011, the Company issued to SAGA a promissory note in the principal amount of \$1,712 due October 10, 2012 (“Maturity Date”) bearing interest of 8% per annum. All of the principal and accrued interest is due on the Maturity Date.

On May 27, 2011, Dominion filed a lawsuit against LMC’s wholly owned subsidiary, Liquidmetal Coatings Solutions, LLC. (“LMCS”), in the County of Chesterfield Virginia claiming damages of \$2,523. Dominion is alleging that LMCS breached its contract with Dominion by not complying with the coating requirements set forth in the contract. The lawsuit filed by Dominion is limited to LMCS and to claims against LMC and LMCS’ assets only. On July 11, 2011, LMCS responded by filing a counterclaim against Dominion for a breach of contract. In the counterclaim, LMCS claimed damages of \$1,823 and requested that Dominion be required to pay the remaining balance on the contract.

As of September 30, 2011, the Company has outstanding liens of approximately \$2,180 against assets located in its South Korean subsidiary by various creditors related to a total of \$2,880 of past-due trade payables and accrued liabilities as of September 30, 2011, which is included in other current liabilities on the Company’s condensed consolidated balance sheets. The Company is currently working to resolve the matter with each creditor by seeking a forbearance or compromise. If it cannot repay the amounts due or obtain forbearance or compromise, the creditors may seek to foreclose on the Company’s assets located in South Korea. The Company’s obligations on such liens are limited to the value of the assets of the South Korean subsidiary. The South Korean subsidiary is classified as a discontinued operations in the condensed consolidated financial statements, and the Company is seeking to either sell its manufacturing facility or dispose of the subsidiary through a private sale (See Note 12). Additional liabilities may be incurred from the sale as well as interest and penalties on liens but are not yet quantifiable as of September 30,

2011.

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. Unless specifically noted above, during the periods presented we have not recorded any accrual for loss contingencies associated with the legal proceedings described above; determined that an unfavorable outcome is probable or reasonably possible; or determined that the amount or range of any possible loss is reasonably estimable.

16. Related Party Transactions

On August 1, 2010, the Company entered into an agreement with John Kang, the Company's former Chairman, to provide consulting services. The Company terminated this agreement as of July 31, 2011, but payments of \$20 per month shall continue through the notice period which ends on October 31, 2011. The Company paid \$82 and \$210 for his services during the three and nine months ended September 30, 2011, respectively. The Company paid \$42 for his services during both the three and nine months ended September 30, 2010.

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(unaudited)

On October 14, 2010, the Company signed an agreement with Innovative Materials Group, LLC (“IMG”), a California limited liability company, which is majority owned by Mr. Kang. Under the agreement, the Company received a deposit of \$520 from IMG to purchase on behalf of IMG, machinery and equipment located in China. The transaction was based on the potential negotiation and completion of a non-exclusive license agreement with IMG under which the machinery and equipment would be transferred to IMG either directly or through the transfer of ownership of the Company’s Chinese subsidiary, Advanced Metals Materials (“AMM”), that owns the equipment (See Note 1). On August 5, 2011, the Company signed a Stock Purchase Agreement (the “Stock Purchase Agreement”) with IMG to sell all of the stock of AMM for \$720 (the “Purchase Price”) where IMG will apply to the payment of the Purchase Price the \$520 deposit previously paid to the Company and the \$200 balance of the Purchase Price will be paid in the form of a Promissory Note due August 5, 2012, bearing an interest rate of 8% per annum. The \$200 notes receivable is included in notes receivable in the Company’s condensed consolidated balance sheet. Interest shall accrue and be paid at maturity along with the principal balance.

In conjunction with the Stock Purchase Agreement, the Company also entered into a License Agreement (the “License Agreement”) with IMG to license certain patents and technical information for the limited purpose of manufacturing certain licensed products with the Company’s existing first generation, die cast machines, as defined by the License Agreement (the “Licensed Products”). The license agreement grants a non-exclusive license to certain product categories listed in the License Agreement, as well as an exclusive license to specific types of consumer eyewear products. The License Agreement obligates IMG to pay the Company a running royalty based on its sales of Licensed Products, and the license will expire on August 5, 2021.

In March 2011, the Company paid \$100 in advanced legal fees to defend Mr. Kang, as the former Representative Director of our Korean subsidiary, against allegations relating to the Company’s Korean subsidiary’s involvement in customs reporting violations in South Korea that allegedly occurred in 2007 and 2008. The Company has also incurred an additional \$3 in legal fees as of September 30, 2011, which is included in accounts payable on the Company’s condensed consolidated balance sheets.

In October 2009, Thomas Steipp, the Company’s President and Chief Executive Officer, Ricardo Salas, the Company’s Vice President and Director, Tony Chung, the Company’s Chief Financial Officer, and Mr. Kang acquired a total of 100,000 shares of the Company’s Series A-1 Preferred Stock and warrants to purchase 2,500,000 shares of the Company’s common stock for an aggregate cash price of \$495. The Series A-1 Preferred Stock is convertible into the Company’s common stock at a conversion price of \$0.10 per common share. Furthermore, the warrants can be exercised for shares of the Company’s common stock at an exercise price of \$0.49 per share and will expire on July 31, 2015. In April 2011, Mr. Steipp converted his 20,000 shares of Series A-1 Preferred Stock into a total of 1,130,688 shares of the Company’s common stock, including dividends received in the form of common stock. In July 2011, Mr. Salas and Mr. Kang converted 50,000 and 19,000 respective shares of Series A-1 Preferred Stock into a total of 2,826,720 and 1,074,154 shares of the Company’s common stock, including dividends received in the form of common stock.

In May 2009, the Company completed a transaction in which (i) the holders of the Company’s 8% Convertible Subordinated Notes exchanged such notes for a combination of new 8% Senior Secured Convertible Notes and shares of a new series of convertible preferred stock designated as “Series A-2 Preferred Stock,” together with warrants

thereon, and (ii) certain investors purchased, for an aggregate purchase price of \$2,500, shares of a new series of convertible preferred stock designated as "Series A-1 Preferred Stock" (See Note 10). The lead investors in this transaction were Carlyle Liquid, LLC and Carlyle Liquid Holdings, LLC (the "Carlyle Entities"), which were organized by Abdi Mahamedi, the Company's Chairman. Mr. Mahamedi became a director and greater-than-5% beneficial owner of the Company by reason of the May 2009 transaction.

The Company has an exclusive license agreement with LLPG, Inc. ("LLPG"), a corporation owned principally by Jack Chitayat, former director of the Company who ceased to be director in 2005. 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. The exclusive license agreement with LLPG expires on December 31, 2021. There were no revenues recognized from product sales and licensing fees from LLPG during the three and nine months ended September 30, 2011 and 2010. There are no outstanding trade receivables due from LLPG as of September 30, 2011 and December 31, 2010.

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On August 6, 2010, the Company paid \$360 to LLPG as a fee related to a modification of its existing exclusive license agreement in connection with the Apple licensing agreement.

In March 2009, the Company entered into a license agreement with Swatch Group, Ltd. (“Swatch”) under which Swatch was granted a perpetual non-exclusive license to the Company’s technology to produce and market watches and certain other luxury products. In March 2011, this license agreement was amended to grant Swatch exclusive rights as to watches, and the Company’s license agreement with LLPG was simultaneously amended to exclude watches from LLPG’s exclusive license.

On June 1, 2008, the Company entered into a transaction with Grace Metal (currently Liquidmetal Korea Co., Ltd. “LMK”), under which (i) LMK agreed to purchase various equipment (including die casting machines and vacuum induction melters) used in the Company’s bulk amorphous alloy business segment and (ii) the Company granted LMK 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. LMK was formed by an investor group that includes the former director and officer of the Company, James Kang, who is also the brother of John Kang, former Chairman of the Company.

In consideration of the license agreement with LMK, the Company was entitled to a royalty of 10% of LMK’s net sales of licensed products (unless LMK’s margin on the products falls below specified levels, in which case a new royalty rate would have been negotiated in good faith). Effective June 1, 2009, the royalty rate was adjusted to 5%. On June 15, 2010, the license agreement with LMK was terminated.

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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,” “anticipate,” “plan,” “seek,” 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 heading “Item 1A. Risk Factors” in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2010 and other risks and uncertainties discussed in other filings made with the Securities and Exchange Commission (including risks described in subsequent reports on Form 10-Q, Form 10-K, and 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 proprietary coatings, powders, bulk alloys, and composites that utilize the advantages offered by amorphous alloy technology. We develop 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 are proprietary amorphous alloys that possess a combination of performance, processing, and potential cost advantages that we believe can 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, in laboratory testing, 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 revenues are derived from two principal operating segments: Liquidmetal alloy industrial coatings (“Coatings”) and licensing and bulk Liquidmetal alloy products (“Licensing and Bulk Alloy”). 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. Licensing and Bulk 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.

Cost of sales consists primarily of the costs of direct material cost and direct labor cost while selling, general, and administrative expenses currently consist primarily of salaries and related benefits, 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.

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Change in value of warrants consists of changes to the fair value of warrants outstanding at each period. The warrants have been accounted for as a liability in accordance with Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 815, Derivatives and Hedging, with the change in fair values reported in earnings. The fair values are determined using a Black-Scholes pricing model and fluctuations in our stock price have had the greatest impact on the valuation of outstanding warrants.

Change in value of conversion feature consists of changes to the fair value of the embedded conversion feature of our senior convertible notes. The embedded conversion feature has been accounted for as a separate derivative instrument in accordance with FASB ASC Topic 815, Derivatives and Hedging, with a change in fair values reported in earnings. The change in fair values is determined using a Black-Scholes pricing model and fluctuations in our stock price have had the greatest impact on the valuation of outstanding conversion features.

In June 2010, we created a wholly owned subsidiary, Advanced Metals Materials (“AMM”), in Weihei China as a holding company for certain assets that were acquired in China. During the first quarter of 2011, AMM started production and manufacturing of certain bulk Liquidmetal alloys. On August 5, 2011, we sold all of the stock of AMM to Innovative Materials Group, which is majority owned by John Kang, the Company’s former Chairman, for \$720, of which \$200 were paid in the form of Promissory note due August 5, 2012, bearing an interest rate of 8% per annum. The results of operations of AMM are included as discontinued operations in the Company’s Bulk Alloys segment for financial reporting purposes. In November 2010, we discontinued our manufacturing operations in South Korea due to recurring losses as a result of the continuing economic downturn. The operating results of the Korean subsidiary are presented as discontinued operations.

In June 2006, we entered into a joint venture agreement with SAGA, SpA in Padova, Italy (“SAGA”), a specialist precision parts manufacturer. The joint venture was named Liquidmetal SAGA Italy, Srl (“LSI”). On August 6, 2010, SAGA filed an action against us in California State Superior Court claiming damages of \$3,200 for payment on a loan and for breach of contract in connection with the formation of LSI.

On April 6, 2011 (the “Effective Date”), we entered into a Settlement and Equity Interest Purchase Agreement with SAGA pursuant to which (i) the joint venture between us and SAGA was terminated, (ii) we and SAGA both agreed to cause certain pending legal actions against each other to be dismissed with prejudice, (iii) we paid SAGA \$2,800 in the form of 4,496,429 restricted shares (“Shares”) of our common stock in exchange for SAGA’s equity interest in LSI, and (iv) the Liquidmetal technology license to LSI was terminated. As of September 30, 2011 and December 31, 2010, a total of \$0 and \$3,100, respectively, were included in accrued liabilities on our condensed consolidated balance sheets for the settlement and legal fees.

The number of Shares issued to SAGA was based on the 30 day trailing, volume weighted average price of the Company’s stock as of the Effective Date. An additional provision of the SAGA settlement and Equity Interest Purchase Agreement was the obligation of the Company to issue a promissory note to compensate for a decrease in the market price of the Company’s common stock over a six month period from the Effective Date of the settlement. As such, on September 30, 2011, the Company recorded a contingent liability of \$1,712, which is included in other long-term liabilities on the Company’s condensed consolidated balance sheets, to account for the decrease in the market price of the Company’s common stock. On October 10, 2011, the Company issued to SAGA a promissory note in the principal amount of \$1,712 due October 10, 2012 (“Maturity Date”) bearing interest of 8% per annum. All of the principal and accrued interest is due on the Maturity Date.

On July 24, 2007, we transferred substantially all of the assets of our Liquidmetal alloy industrial coatings business 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 coatings business. We initially held a 69.25% ownership interest in LMC, however, during 2010, LMC failed to redeem its preferred units by the specified

time and was required to issue additional common shares to its noteholders, thus diluting our interest. On December 15, 2010, we and two other members of LMC contributed additional capital into LMC in exchange for additional common membership units. As a result, our ownership interest in LMC increased to 72.86%. The results of operations of LMC are consolidated and represent our Liquidmetal alloy industrial coatings segment for financial reporting purposes.

In May 2010, LMC entered into a joint venture agreement with IMCO Alloys Private Limited (“IMCO”) to create a subsidiary named Liquidmetal Coatings Solutions India Private Limited (“LMCSI”) and engage in application services of Liquidmetal products as a protective coating. Initially, under the joint venture agreement, LMC held 80% and IMCO held 20% of the outstanding Class A Shares of LMCSI. LMC may, at its option, subscribe to Class B Shares of LMCSI. In September 2010, LMC provided to LMCSI approximately \$80 in capital equipment and was issued 358,204 of Class B Shares of LMCSI. As of September 30, 2011, LMC holds an 88.60% ownership interest in LMCSI.

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On August 5, 2010, we entered into a license transaction with Apple Inc. (“Apple”) pursuant to which (i) we contributed substantially all of our intellectual property assets to a newly organized special-purpose, wholly-owned subsidiary, called Crucible Intellectual Property, LLC (“CIP”), (ii) for a one-time license fee, CIP granted to Apple a perpetual, worldwide, fully-paid, exclusive license to commercialize such intellectual property in the field of consumer electronic products, as defined in the license agreement, and (iii) CIP granted back to us a perpetual, worldwide, fully-paid, exclusive license to commercialize such intellectual property in all other fields of use. Additionally, in connection with the license transaction, Apple required us to complete a statement of work related to the exchange of Liquidmetal intellectual property information. During the three months ended September 30, 2010, we recognized a portion of the one-time license fee upon receipt of the initial payment and completion of the foregoing requirements under the license transaction. The remaining portion of the one-time license fee was recognized during the fourth quarter of 2010 at the completion of the required statement of work.

We have used and are using the license fee from this transaction to pay off noteholders and other indebtedness and to fund operations. Under the agreements relating to the license transaction, we are obligated to contribute all intellectual property that we develop through February 2012 to CIP. In addition, we are obligated to refrain from encumbering any assets subject to the Apple security interest through August 2012 and are obligated to refrain from granting any security in our interest in CIP at any time. We are also obligated to maintain certain limited liability company formalities with respect to CIP at all times after the closing of the license transaction. If we are unable to comply with these obligations, Apple may be entitled to foreclose on such assets.

On August 5, 2011, we signed a Stock Purchase Agreement (the “Stock Purchase Agreement”) with Innovative Materials Group (“IMG”), which is majority owned by John Kang, our former Chairman, to sell all of the stock of Advanced Metals Materials for \$720 (the “Purchase Price”) where IMG will apply to the payment of the Purchase Price the \$520 deposit previously paid to us and the \$200 balance of the Purchase Price will be paid in the form of a Promissory Note due August 5, 2012, bearing an interest rate of 8% per annum. Interest shall accrue and be paid at maturity along with the principal balance.

In conjunction with the Stock Purchase Agreement, we also entered into a License Agreement (the “License Agreement”) with IMG to license certain patents and technical information for the limited purpose of manufacturing certain licensed products with the Company’s existing first generation, die cast machines, as defined by the License Agreement (the “Licensed Products”). The license agreement grants a non-exclusive license to certain product categories listed in the License Agreement, as well as an exclusive license to specific types of consumer eyewear products. The License Agreement obligates IMG to pay us a running royalty based on its sales of Licensed Products, and the license will expire on August 5, 2021.

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

Assets at lower of cost or net realizable value

Deferred tax assets

Valuation of derivatives of warrants

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Our Annual Report on Form 10-K/A for the year ended December 31, 2010, contains further discussions on our critical accounting policies and estimates.

Results of Operations

| | For the Three Months Ended September 30, 2011 (in thousands) | | | | For the Three Months Ended September 30, 2010 (in thousands) | | | | Increase (Decrease) |
|---|--|----------|----------|-----------------------------|--|----------|-----------|-----------------------------|------------------------|
| | Bulk Alloy | Coatings | Total | Percentage of Revenue | Bulk Alloy | Coatings | Total | Percentage of Revenue | |
| Revenue | \$ 112 | \$ 2,801 | \$ 2,913 | 100 % | \$ 15,470 | \$ 1,839 | \$ 17,309 | 100 % | \$ (14,396) |
| Cost of sales | 43 | 1,661 | 1,704 | 58 % | 120 | 1,168 | 1,288 | 7 % | 416 |
| Selling, general and administrative expenses | 876 | 643 | 1,519 | 52 % | 1,838 | 588 | 2,426 | 14 % | (907) |
| Research and development expenses | 273 | 37 | 310 | 11 % | 285 | 46 | 331 | 2 % | (21) |
| Settlement expense | 1,127 | - | 1,127 | 39 % | - | - | - | 0 % | 1,127 |
| Change in value of warrants, gain (loss) | 9,970 | - | 9,970 | 342 % | (27,199) | - | (27,199) | -157 % | 37,169 |
| Change in value of conversion feature, gain | - | - | - | 0 % | 15 | - | 15 | 0 % | (15) |
| Other income | 20 | - | 20 | 1 % | 18 | - | 18 | 0 % | 2 |
| Interest expense | 17 | 368 | 385 | 13 % | 2,144 | 360 | 2,504 | 14 % | (2,119) |
| Gain on disposal of subsidiary | 370 | - | 370 | 13 % | - | - | - | 0 % | 370 |
| Loss from discontinued operations, net | 806 | - | 806 | 28 % | 334 | - | 334 | 2 % | 472 |

| | For the Nine Months Ended September 30, 2011 (in thousands) | | | | For the Nine Months Ended September 30, 2010 (in thousands) | | | | Increase (Decrease) |
|---|---|----------|----------|-----------------------------|---|----------|-----------|-----------------------------|------------------------|
| | Bulk Alloy | Coatings | Total | Percentage of Revenue | Bulk Alloy | Coatings | Total | Percentage of Revenue | |
| Revenue | \$ 726 | \$ 8,552 | \$ 9,278 | 100 % | \$ 15,828 | \$ 6,383 | \$ 22,211 | 100 % | \$ (12,933) |
| Cost of sales | 213 | 5,465 | 5,678 | 61 % | 220 | 4,160 | 4,380 | 20 % | 1,298 |
| Selling, general and administrative expenses | 2,740 | 1,895 | 4,635 | 50 % | 3,279 | 1,853 | 5,132 | 23 % | (497) |
| | 886 | 159 | 1,045 | 11 % | 696 | 108 | 804 | 4 % | 241 |

| | | | | | | | | | | |
|---|-------|-------|-------|------|----------|-------|----------|--------|---------|---|
| Research and development expenses | | | | | | | | | | |
| Settlement expense | 1,712 | - | 1,712 | 18 % | - | - | - | 0 % | 1,712 | |
| Change in value of warrants, gain (loss) | 6,887 | - | 6,887 | 74 % | (24,361) | - | (24,361) | -110 % | 31,248 | |
| Change in value of conversion feature, gain | - | - | - | 0 % | 444 | - | 444 | 2 % | (444) |) |
| Other income | 26 | - | 26 | 0 % | 81 | - | 81 | 0 % | (55) |) |
| Interest expense | 48 | 1,073 | 1,121 | 12 % | 4,024 | 1,030 | 5,054 | 23 % | (3,933) |) |
| Interest income | 18 | - | 18 | 0 % | - | - | - | 0 % | 18 | |
| Gain on disposal of subsidiary | 370 | - | 370 | 4 % | - | - | - | 0 % | 370 | |
| Loss from discontinued operations, net | 1,254 | - | 1,254 | 14 % | 949 | - | 949 | 4 % | 305 | |

Revenue. The \$14,396 decrease in revenue for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010 and the \$12,933 decrease in revenue for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010 is mainly due to a one-time licensing fee with Apple that occurred during the three months ended September 30, 2010. The decrease is offset by a \$963 and \$4,007 increase in revenues for the three and nine months ended September 30, 2011, respectively from sales of our coating products into new markets including China and application services adding more new customers. We expect sales of our coating products to continue to increase as we continue to explore possibilities to expand our sales and services into new markets.

Cost of Sales. The \$416 increase in cost of sales for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010 and the \$1,298 increase in cost of sales for the nine months ended September 30, 2011 was mainly due to an increase in revenue activity of our coatings application services from new customer accounts as well as our coating products business entering into new markets in China. Additionally, during the three months ended September 30, 2010, the Company entered into a licensing agreement with Apple, which generated revenue without any cost of sales resulting in an unusual lower percentage of Cost of Sales as a percentage of revenue for the three and nine months ended September 30, 2010.

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Selling, General and Administrative Expenses. The decrease in selling, general and administrative expense for the three and nine months ended September 30, 2011 as compared to the three and nine months ended September 30, 2010 is mainly due to \$360 paid to LLPG as a fee related to a modification of its existing exclusive license agreement in connection with the Apple licensing agreement and a decrease in our overall legal expense.

Research and Development Expenses. The increase in research and development expenses for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010 is mainly due to an increase in consulting expenses. We continue 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.

Settlement Expense. Settlement expense of \$1,127 and \$1,712 during the three and nine months ended September 30, 2011 was due to the recording of a contingent liability as of September 30, 2011 related to our SAGA settlement on April 6, 2011.

Change in Value of Warrants. The change in value of warrants, consisting of warrants issued in connection with convertible and subordinated notes and convertible preferred stock issued between 2004 and 2009, was a significant gain for the three and nine months ended September 30, 2011 compared to the three and nine months ended September 30, 2010, primarily due to the decrease in our stock price and the timely expiration of certain warrants that occurred during the three and nine months ended September 30, 2011.

Change in Value of Conversion Feature. There was no change in value of conversion feature expenses recorded for the three and nine months ended September 30, 2011, due to the retirement of our convertible notes in 2010. The gain in change in value of conversion feature expenses for the three and nine months ended September 30, 2010 was due to the decrease in our stock price since the three and nine months ended September 30, 2010.

Other Income. Other income consisted of write-off of accounts payable for the three and nine months ended September 30, 2010.

Interest Expense. Interest expense consists primarily of debt discount amortization and interest accrued on outstanding convertible and subordinated notes and a revolving loan agreement. The decrease was due to the retirement of our senior convertible notes in 2010.

Gain on disposal of subsidiary. Gain on disposal of subsidiary during the three and nine months ended September 30, 2011 was due to the sale of Advanced Metals Materials , our China subsidiary.

Loss from Discontinued Operations, net. Loss from discontinued operations was due to the discontinuation of Liquidmetal Technologies Korea (“LMTK”), our South Korean subsidiary, in the fourth quarter of 2010, as well as impairment charges to write down the assets LMTK to their net realizable value and the sale of Advanced Metals Materials , our China subsidiary.

Liquidity and Capital Resources

Our cash used in operating activities was \$3,435 and \$7,991 for the nine months ended September 30, 2011 and 2010, respectively. Our working capital deficit increased from \$18,638 at December 31, 2010 to \$18,931 at September 30, 2011. The \$293 increase is mainly due to decreases in cash and cash equivalents of \$3,350, decreases in inventories of \$164 and increases in current portion of long-term debt of majority-owned subsidiary of \$7,060, offset by decreases in accrued liabilities of \$3,336 and decreases in warrant liabilities of \$6,887.

Our cash used in investing activities was \$239 for the nine months ended September 30, 2011 primarily from purchase of property and equipment.

Our cash from financing activities of \$327 for the nine months ended September 30, 2011 was mainly due to our majority owned subsidiary borrowing \$6,160 from a revolving loan, which was offset by the payment of \$5,846 for a revolving and term loan agreement that was executed in June 2010. Our cash and cash equivalents as of September 30, 2011 was \$1,699.

We anticipate that our current capital resources, together with anticipated cash from operations, will be sufficient to fund our operations through the fourth quarter of 2011. However, we will require additional funding at or prior to that time in order to continue operations as a going concern. We are actively seeking additional sources of capital through strategic and other potential transactions. We cannot guarantee that adequate funds will be available when needed, and if we do not receive sufficient capital, we will be required to alter or reduce the scope of our operations and/or cease operations altogether.

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On August 5, 2011, we sold all of the stock of Advanced Metals Materials (“AMM”) to Innovative Materials Group, which is majority owned by John Kang, our Company’s former Chairman, for \$720, of which \$200 was paid in the form of Promissory note due August 5, 2012, bearing an interest rate of 8% per annum. The results of operations of AMM are included as discontinued operations in the Company’s Licensing and Bulk Alloys segment for financial reporting purposes.

On May 27, 2011, Virginia Electric and Power Company (“Dominion”) filed a lawsuit against LMC’s wholly owned subsidiary, Liquidmetal Coatings Solutions, LLC. (“LMCS”), in Circuit Court of Chesterfield County, Virginia claiming damages of \$2,523. Dominion is alleging that LMCS breached its contract with Dominion by not complying with the coating requirements set forth in the contract. The lawsuit filed by Dominion is limited to LMCS and to claims against LMC and LMCS’ assets only. On July 11, 2011, LMC responded by filing a counterclaim against Dominion for a breach of contract. In the counterclaim, LMC claimed damages of \$1,823 and requested that Dominion be required to pay the remaining balance on the contract.

As of September 30, 2011, our majority owned subsidiary, LMC, has \$11,332 of outstanding debt, including accrued interest payable. All such LMC debt is secured only by the assets of LMC. Additionally, LMC has \$2,128 of preferred units and unpaid distribution outstanding as of September 30, 2011. If by December 31, 2011 the preferred units are not redeemed in full, LMC is required to initiate a private unit offering to the then-existing members LMC for an amount of proceeds that will be adequate to fully redeem the preferred units. If by January 31, 2012, LMC is still not able to redeem in full the preferred units, the preferred unit holders will receive additional common membership units equal to 12% of the common membership units then outstanding and an additional 2% of the common membership units per quarter until the preferred units are redeemed in full. We have the potential to lose LMC as a majority owned subsidiary at which point we would deconsolidate LMC for financial reporting purposes.

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 and the success of pursuing strategic licensing and funded product development relationships with external partners.

We have outstanding liens of approximately \$2,180 against assets located in our South Korean subsidiary by various creditors related to a total of \$2,880 of past-due trade payables and accrued liabilities as of September 30, 2011. We are currently working to resolve the matter with each creditor by seeking a forbearance or compromise. If we cannot repay the amounts due or obtain a forbearance or compromise, the creditors may seek to foreclose on our assets located in South Korea. Our obligations on such liens are limited to the value of the assets of the South Korean subsidiary. The South Korean subsidiary is classified as a discontinued operations in the condensed consolidated financial statements, and we are seeking to either sell the manufacturing facility or dispose of the subsidiary through a private sale. Additional liabilities may be incurred from the sale as well as interest and penalties on liens but are not yet quantifiable as of September 30, 2011.

Off Balance sheets Arrangements

An off-balance sheets arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has (1) made guarantees, (2) retained 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.

As of September 30, 2011, the Company did not have any off-balance sheets arrangement.

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

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Item 4 – Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q to ensure information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

We have concluded that the condensed consolidated financial statements in this Quarterly Report fairly present, in all material respects, our financial position, results of operations and cash flows as of the dates, and for the periods, presented, in conformity with Generally Accepted Accounting Principles.

Changes in Internal Control.

Subsequent to the filing of the Company’s Form 10-K for the year ended December 31, 2010, it was determined that reclassification of revenues and certain expenses related to discontinued operations of the Company’s manufacturing operations in South Korea were not properly reported in accordance with FASB ASC 205-20 Presentation of Financial Statements – Discontinued Operations and the Company restated its financial statements in the Form 10-K/A, filed on April 5, 2011.

As a result of the error described above, management has re-evaluated the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) and has performed additional analyses and post-closing review procedures designed to provide reasonable assurance that our condensed consolidated financial statements were properly prepared, including engaging an outside accounting consultant to assist in reviewing the Form 10-Q for the three and nine months ended September 30, 2011.

There have been no other changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II
OTHER INFORMATION

Item 1 – Legal Proceedings

On May 27, 2011, Dominion filed a lawsuit against LMC’s wholly owned subsidiary, Liquidmetal Coatings Solutions, Inc. (“LMCS”), in Circuit Court of Chesterfield County, Virginia claiming damages of \$2,523. Dominion is alleging that LMCS breached its contract with Dominion by not complying with the coating requirements set forth in the contract. The lawsuit filed by Dominion is limited to LMCS and to claims against LMC and LMCS’ assets only. On July 11, 2011, LMCS responded by filing a counterclaim against Dominion for a breach of contract. In the counterclaim, LMCS claimed damages of \$1,823 and requested that Dominion be required to pay the remaining balance on the contract.

On August 6, 2010, SAGA, SpA in Padova, Italy (“SAGA”), filed a complaint against us in the County of Orange in California claiming damages of \$3,200 for payment on an alleged loan and for alleged breach of contract in connection with the formation of Liquidmetal Saga Italy, Srl (“LSI”), a joint venture between us and SAGA. On April 6, 2011 (the “Effective Date”), we entered into a Settlement and Equity Interest Purchase Agreement with SAGA pursuant to which (i) the joint venture between us and SAGA was terminated, (ii) we and SAGA both agreed to cause certain pending legal action against each other to be dismissed with prejudice, (iii) we paid SAGA \$2,800 in the form of 4,496,429 restricted shares (“Shares”) of our common stock in exchange for SAGA’s equity interest in LSI, and (iv) the Liquidmetal technology license to LSI was terminated. A total of \$0 and \$3,100 was accrued for the settlement and legal fees as of September 30, 2011 and December 31, 2010, respectively, which is included in accrued liabilities on our condensed consolidated balance sheets.

The number of Shares issued to SAGA was based on the 30 day trailing, volume weighted average price of our stock as of the Effective Date. An additional provision of the SAGA settlement and Equity Interest Purchase Agreement was the obligation for us to issue a promissory note to compensate for any decrease in the market price of our common stock over a six month period from the Effective Date of the settlement. As such, on September 30, 2011, we recorded a contingent liability of \$1,712, which is included in other long-term liabilities on our condensed consolidated balance sheets, to account for the decrease in the market price of our common stock. On October 10, 2011, we issued to SAGA a promissory note in the principal amount of \$1,712 due October 10, 2012 (“Maturity Date”) bearing interest of 8% per annum. All of the principal and accrued interest is due on the Maturity Date.

There are no other material legal proceedings that are pending.

Item 1A – Risk Factors

In addition to the risk factors that have been disclosed in our Form 10-K/A, management is aware of the following emerging risk factor:

We have limited funding to support our current operations.

We anticipate that our current capital resources, together with anticipated cash from operations, will be sufficient to fund our operations through the fourth quarter of 2011. However, we will require additional funding at or prior to that time in order to continue operations as a going concern. We are actively seeking additional sources of capital through strategic and other potential transactions. We cannot guarantee that adequate funds will be available when needed, and if we do not receive sufficient capital, we will be required to alter or reduce the scope of our operations and/or cease operations altogether.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3 – Defaults Upon Senior Securities

None

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Item 4 – Removed and Reserved

Item 5 – Other Information

On July 27, 2011, we signed an Amendment No. 1 to Restricted Stock Award with Thomas Steipp, our President and Chief Executive Officer, to change the vesting date of the first 20% of his restricted shares from August 5, 2011 to December 15, 2011. The remaining 80% of the restricted shares will continue to vest in one-fifth increments on each of the anniversary of his employment with us.

On August 5, 2011, we signed a Stock Purchase Agreement (the “Stock Purchase Agreement”) with Innovative Materials Group (“IMG”), which is majority owned by John Kang, our former Chairman, to sell all of the stock of Advanced Metals Materials for \$720 (the “Purchase Price”) where IMG will apply to the payment of the Purchase Price the \$520 deposit previously paid to us and the \$200 balance of the Purchase Price will be paid in the form of a Promissory Note due August 5, 2012, bearing an interest rate of 8% per annum. Interest shall accrue and be paid at maturity along with the principal balance.

In conjunction with the Stock Purchase Agreement, we also entered into a License Agreement (the “License Agreement”) with IMG to license certain patents and technical information for the limited purpose of manufacturing certain licensed products with the Company’s existing first generation, die cast machines, as defined by the License Agreement (the “Licensed Products”). The license agreement grants a non-exclusive license to certain product categories listed in the License Agreement, as well as an exclusive license to specific types of consumer eyewear products. The License Agreement obligates IMG to pay us a running royalty based on its sales of Licensed Products, and the license will expire on August 5, 2021.

Item 6 – Exhibits

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

| Exhibit Number | Description of Document |
|----------------|--|
| <u>31.1</u> | Certification of Principal Executive Officer, Thomas Steipp, as required by Section 302 of the Sarbanes-Oxley Act of 2002 |
| <u>31.2</u> | Certification of Principal Financial Officer, Tony Chung, as required by Section 302 of the Sarbanes-Oxley Act of 2002 |
| <u>32.1</u> | Written Statement of the Chief Executive Officer, Thomas Steipp, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| <u>32.2</u> | Written Statement of the Chief Financial Officer, Tony Chung, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101 | The following financial statements from the Company’s Form 10-Q for the quarter ended September 30, 2011, formatted in XBRL: (i) Condensed Consolidated Balance sheets, (ii) Condensed Consolidated Statement of Operations and Comprehensive Income (Loss), (iii) Condensed Consolidated Statements of Shareholders’ Deficiency (iv) Notes to Condensed Consolidated Financial Statements |

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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 thereunto duly authorized.

LIQUIDMETAL TECHNOLOGIES,
INC.
(Registrant)

Date: November 10, 2011

/s/ Thomas Steipp
Thomas Steipp
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 10, 2011

/s/ Tony Chung
Tony Chung
Chief Financial Officer
(Principal Financial and Accounting
Officer)