LIQUIDMETAL TECHNOLOGIES INC
Form 10-Q
November 13, 2012

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

FORM 10-Q

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

For the quarterly period ended September 30, 2012

OR

o 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	33-0264467
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

30452 Esperanza
Rancho Santa Margarita, CA 92688
(Address of principal executive office, 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 x No o

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 x No o

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 o Accelerated filer o Non-accelerated filer o Smaller reporting company x

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

The number of common shares outstanding as of November 1, 2012 was 216,202,196.

LIQUIDMETAL TECHNOLOGIES, INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2012

FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q of Liquidmetal Technologies, Inc. contains “forward-looking statements” that may state our management’s plans, future events, objectives, current expectations, estimates, forecasts, assumptions or projections about the company and its business. Any statement in this report that is not a statement of historical fact is a forward-looking statement, and in some cases, words such as “believes,” “estimates,” “projects,” “expects,” “intends,” “m “anticipates,” “plans,” “seeks,” and similar expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual outcomes and results to differ materially from the anticipated outcomes or results. These statements are not guarantees of future performance, and undue reliance should not be placed on these statements. It is important to note that our actual results could differ materially from what is expressed in our forward-looking statements due to the risk factors described in the section of our Annual Report on Form 10-K for the year ended December 31, 2011 titled “Risk Factors,” the section of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 titled “Risk Factors,” and the section of this Quarterly Report titled “Risk Factors,” as well as the following risks and uncertainties:

- Our ability to fund our operations in the short and long term through financing transactions on terms acceptable to us, or at all;
- Our history of operating losses and the uncertainty surrounding our ability to achieve or sustain profitability;
- Our limited history of developing and selling products made from our bulk amorphous alloys;
- Lengthy customer adoption cycles and unpredictable customer adoption practices;
- Our ability to identify, develop, and commercialize new product applications for our technology;
- Competition from current suppliers of incumbent materials or producers of competing products;
- Our ability to identify, consummate, and/or integrate strategic partnerships;
- The potential for manufacturing problems or delays; and
- Potential difficulties associated with protecting or expanding our intellectual property position.

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

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PART I
FINANCIAL INFORMATION
Item 1 –Financial Statements

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

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
ASSETS		
Current assets:		
Cash	$ 8,701	$ 122
Trade accounts receivable, net of allowance for doubtful accounts of $0 and $0	98	241
Related party notes receivable	200	200
Prepaid expenses and other current assets	846	248
Total current assets	$ 9,845	$ 811
Property and equipment, net	154	162
Patents and trademarks, net	901	968
Other assets	32	52
Total assets	$ 10,932	$ 1,993
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	235	803
Accrued liabilities	170	457
Accrued dividends	222	571
Deferred revenue	-	67
Short-term debt	-	1,712
Convertible note, net of debt discount of $8,177	2,823	-
Embedded conversion feature liability	6,080	-
Total current liabilities	$ 9,530	$ 3,610
Long-term liabilities		
Warrant liabilities	5,302	-
Other long-term liabilities	856	609
Total liabilities	$ 15,688	$ 4,219
Shareholders' deficit:		
Convertible, redeemable Series A Preferred Stock, $0.001 par value; 10,000,000shares authorized; 506,936 and 1,299,151 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	-	1
Common stock, $0.001 par value; 400,000,000 shares authorized; 196,962,069and 134,467,554 shares issued and outstanding at September 30, 2012and December 31, 2011, respectively	193	130

Warrants	18,179	24,438
Additional paid-in capital	163,771	149,064
Accumulated deficit	(186,899)	(175,859)
Total shareholders' deficit	$ (4,756)	$ (2,226)
Total liabilities and shareholders' deficit	$ 10,932	$ 1,993

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

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

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011 (Restated)	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011 (Restated)
Revenue				
Products	$80	$112	$471	$345
Licensing and royalties	27	-	46	381
Total revenue	107	112	517	726
Cost of revenue	73	43	256	212
Gross profit	34	69	261	514
Operating expenses				
Selling, marketing, general and administrative	1,372	877	3,338	2,741
Research and development	217	273	616	886
Manufacturing contract costs	-	-	6,300	-
Settlement expense	-	1,127	-	1,712
Total operating expenses	1,589	2,277	10,254	5,338
Operating loss from continuing operations	(1,555)	(2,208)	(9,993)	(4,824)
Change in value of warrants	4,184	743	4,010	1,327
Change in value of embedded conversion feature liability	2,785	-	2,785	-
Debt discount amortization	(6,247)	-	(6,247)	-
Financing costs	-	-	(1,355)	-
Other income	-	20	-	26
Interest expense	(240)	(17)	(258)	(48)
Interest income	10	4	18	18
Loss from continuing operations before income taxes	(1,063)	(1,458)	(11,040)	(3,501)
Income taxes	-	-	-	-
Loss from continuing operations	(1,063)	(1,458)	(11,040)	(3,501)
Discontinued operations:				
Loss on disposal of subsidiary, net of tax	-	(331)	-	(331)
Loss from operations of discontinued operations, net of taxes	-	(96)	-	(637)
Net loss	(1,063)	(1,885)	(11,040)	(4,469)
Other comprehensive income				

Foreign exchange translation gain (loss) during the period	-	(25)	-	11
Comprehensive loss	$(1,063)	$(1,910)	$(11,040)	$(4,458)
Per common share basic and diluted:				
Loss from continuing operations	$(0.01)	$(0.01)	$(0.06)	$(0.03)
Loss from discontinued operations	-	-	-	-
Basic and diluted loss per share	$(0.01)	$(0.01)	$(0.06)	$(0.03)
Number of weighted average shares - basic and diluted	195,275,681	129,766,480	173,544,833	113,271,712

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

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LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIT
For the Nine Months Ended September 30, 2012
(in thousands, except share data)
(unaudited)

	Preferred Shares	Common Shares	Preferred Stock	Common Stock	Warrants part of Additional Paid-in Capital	Additional Paid-in Capital	Accumulated Deficit	Total
Balance, December 31, 2011	1,299,151	134,467,554	$ 1	$ 130	$ 24,438	$ 149,064	$ (175,859)	$ (2,226)
Conversion of preferred stock	(792,215)	25,669,752	(1)	26	-	(25)	-	-
Common stock issuance	-	35,059,163	-	35	-	7,778	-	7,813
Warrant exercises	-	1,411,600	-	1	(6,259)	6,258	-	-
Stock option exercises	-	354,000	-	1	-	43	-	44
Stock-based compensation	-	-	-	-	-	71	-	71
Restricted stock issued to officer	-	-	-	-	-	233	-	233
Dividend distribution	-	-	-	-	-	349	-	349
Net loss	-	-	-	-	-	-	(11,040)	(11,040)
Balance, September 30, 2012	506,936	196,962,069	$ -	$ 193	$ 18,179	$ 163,771	$ (186,899)	$ (4,756)

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

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LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, except per share data)
(unaudited)

	Nine Months Ended September 30, 2012	2011 (Restated)
Operating activities:		
Net loss	$ (11,040)	$ (4,469)
Add: Loss from disposal of subsidiary and operations of discontinued operations	-	968
Net loss attributable to continuing operations	$ (11,040)	$ (3,501)
Adjustments to reconcile loss from continuing operations to net cash (used in) operating activities:		
Depreciation and amortization	138	211
Stock-based compensation	71	183
Resticted stock compensation issued to officer	233	233
Gain from change in value of warrants	(4,010)	(1,327)
Gain from change in value of embedded conversion feature liability	(2,785)	-
Manufacturing contract costs	6,300	-
Debt discount amortization	6,247	-
Non-cash interest expense	240	-
Financing costs	1,355	-
Changes in operating assets and liabilities:		
Trade accounts receivable	143	1
Notes receivable	-	(200)
Inventories	-	7
Prepaid expenses and other current assets	106	638
Other assets	20	73
Accounts payable and accrued expenses	(854)	(1,550)
Deferred revenue	(67)	35
Other liabilities	247	1,887
Net cash used in continuing operations	(3,656)	(3,310)
Changes in net assets and liabilities of discontinued operations	-	265
Net cash used in operating activities	(3,656)	(3,045)
Investing Activities:		
Purchases of property and equipment	(29)	(239)
Investment in patents and trademarks	(35)	-
Net cash used in investing activities	(64)	(239)
Financing Activities:		
Proceeds from short-term debt	1,050	-
Repayment of short-term debt	(2,762)	-
Payment of debt issuance costs	(1,033)	-
Proceeds from exercise of stock options	44	12

Proceeds from convertible debt issuance	12,000	-
Proceeds from stock issuance	3,000	1
Net cash provided by continuing operations	12,299	13
Net cash used in financing activities of discontinued operations	-	(59)
Net cash provided by (used in) financing activities	12,299	(46)
Effect of foreign exchange translation	-	(43)
Net increase (decrease) in cash and cash equivalents	8,579	(3,373)
Cash and cash equivalents at beginning of period	122	5,072
Cash and cash equivalents at end of period	$ 8,701	$ 1,699
Supplemental Schedule of Non-Cash Investing and Financing Activities:		
Offering cost in relation to common stock issuance	2,905	-
Cashless exercise of warrants	6,259	-
Pre-installment payment of convertible debt through common stock issuance	1,240	-

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

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Nine Months Ended September 30, 2012 and 2011
(numbers in thousands, except share and per share data)
(unaudited)

1. Description of Business

Liquidmetal Technologies, Inc. (the "Company") is a materials technology company that develops and commercializes products made from amorphous alloys. The Company's family of alloys consists of a variety of bulk alloys and composites that utilizes the advantages offered by amorphous alloys technology. The Company designs, develops and sells products and components from bulk amorphous alloys to customers in various industries. The Company also partners with third-party manufacturers and licensees to develop and commercialize Liquidmetal alloy products. The Company believes that its proprietary bulk alloys are the only commercially viable bulk amorphous alloys currently available in the marketplace.

Amorphous alloys are in general 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 the Company believes will make them preferable to other materials in a variety of applications. The amorphous atomic structure of bulk 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, 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. The Company believes 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, the Company believes these advantages could enable the introduction of entirely new products and applications that are not possible or commercially viable with other materials.

The Company's revenues are derived from i) selling bulk Liquidmetal alloy products, which include non-consumer electronic devices, aerospace parts, medical products, and sports and leisure goods, ii) selling tooling and prototype parts such as demonstration parts and test samples for customers with products in development; and iii) product licensing and royalty revenue. The Company is currently converting from a research and development and prototyping business to a general production business of selling commercial parts, and in the future, we expect to have the largest portion of our revenues in the Liquidmetal alloy products category.

2. Basis of Presentation and Recent Accounting Pronouncements

The accompanying unaudited interim consolidated financial statements as of and for the three and nine months ended September 30, 2012 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, 2012 are not necessarily indicative of the results that may be expected for any future periods or the year ending December 31, 2012. The accompanying unaudited consolidated financial statements should be read in conjunction with the Company's 2011 Annual Report on Form 10-K filed with the Securities and Exchange

Commission on March 30, 2012.

Revenue Recognition

Revenue is recognized pursuant to applicable accounting standards including FASB ASC Topic 605 ("ASC 605"), Revenue Recognition. ASC 605 summarizes certain points of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements and provides 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 prototyping of Liquidmetal mold and bulk alloys as well as 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 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.

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Nine Months Ended September 30, 2012 and 2011
(numbers in thousands, except share and per share data)
(unaudited)

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) collectability is reasonably assured or upon receipt of an upfront fee, and (iii) 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.

Fair Value Measurements

The estimated fair values of amounts reported in the consolidated financial statements have been determined using available market information and valuation methodologies, as applicable. The fair value of cash and trade receivables approximate their carrying value due to their short maturities. The fair value of non-current assets and liabilities approximate their carrying value unless otherwise stated. The carry amounts reported for debt obligations approximate fair value due to the effective interest rate of these obligations reflecting the Company's current borrowing rate.

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, warrants that are recorded at fair value on a periodic basis. Warrants are evaluated under the hierarchy of FASB ASC Subtopic 480-10, FASB ASC Paragraph 815-25-1 and FASB ASC Subparagraph 815-10-15-74 addressing embedded derivatives. The fair value of such warrants is estimated using the Black-Scholes option pricing model. The foregoing warrants have certain anti-dilution and exercise price reset provisions which qualify the warrants to be classified as a liability under FASB ASC 815 (see note 9).

The Company has one Level 3 financial instrument, an embedded derivative that is recorded at fair value on a periodic basis. The embedded derivative is evaluated under the hierarchy of FASB ASC Subtopic 480-10, FASB ASC Paragraph 815-25-1 and FASB ASC Subparagraph 815-10-15-74 addressing embedded derivative. The fair value of such embedded derivatives is estimated using the Monte Carlo simulation model. The foregoing embedded derivative has certain anti-dilution and exercise price reset provisions which qualify the embedded derivative to be classified as a liability under FASB ASC 815 (see notes 8).

As of September 30, 2012, the following table represents the Company's fair value hierarchy for items that are required to be measured at fair value on a recurring basis:

	Fair Value	Level 1	Level 2	Level 3
Embedded conversion feature liability	-	-	-	$ 6,080
Warrant liabilities	-	-	$ 5,302	-

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LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Nine Months Ended September 30, 2012 and 2011
(numbers in thousands, except share and per share data)
(unaudited)

Recent Accounting Pronouncements

In June 2011, the FASB, issued guidance regarding the presentation of comprehensive income. The new guidance eliminates the option to report other comprehensive income and its components in the statement of changes in equity. Instead, an entity is required to present either a continuous statement of net income and other comprehensive income or 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 adopted the guidance beginning on January 1, 2012.

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 adopted the guidance beginning on January 1, 2012.

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. Significant Transactions

July 2012 Private Placement

On July 2, 2012, the Company entered into a private placement transaction (the "July 2012 Private Placement") for $12 million in principal amount of senior convertible notes due on September 1, 2013. The notes are convertible at any time at the option of the holders, into shares of the Company's common stock at a conversion price of $0.352 per share. In the event that the Company issues or sells shares of the Company's common stock for a price per share that is less than the conversion price then in effect, the conversion price then in effect will be decreased to such lower price, subject to customary exceptions. The notes bear interest at 8% per annum and are payable in twelve equal monthly installments of principal and interest beginning on October 1, 2012. Each monthly installment payment may be made in cash, shares of the Company's common stock, or a combination thereof. If paid in shares, such shares will be valued at the lower of (i) the then applicable conversion price or (ii) a price that is 87.5% of the arithmetic average of the ten (or in some cases fewer) lowest weighted average prices of the Company's common stock during the twenty trading day period ending two trading days before the payment date or the date on which the Company elects to pay in shares, whichever is lower (the "Measurement Period"). The Company's ability to make such payments with shares of the Company's common stock will be subject to certain conditions including (i) a minimum of $250 in average daily trading volume during the Measurement Period, (ii) a minimum of $150 in daily trading volume during each day during the Measurement Period, with certain exceptions, and (iii) the effectiveness of a resale registration statement with respect to the shares (see note 8).

As a part of the July 2012 Private Placement, the Company issued warrants to purchase 18,750,000 shares of the Company's common stock at an exercise price of $0.384 per share, and such warrants will be first exercisable within six months of the issuance date thereof. In the event that the Company issues or sells shares of the Company's common stock at a price per share that is less than the exercise price then in effect, the exercise price of the warrants will be reduced based on a weighted-average formula. In addition, on the two year anniversary of the issuance date, the then applicable exercise price may be reset to equal the lesser of (i) the then current exercise price or (ii) 87.5% of the arithmetic average of the ten lowest weighted average prices of the common stock during the twenty trading day period ending two trading days immediately preceding the reset date. All of the warrants will expire on July 2, 2017 (see note 9).

June 2012 Visser Precision Cast, LLC

On June 1, 2012, the Company entered into a Master Transaction Agreement (the "Visser MTA Agreement") with Visser Precision Cast, LLC ("Visser") relating to a strategic transaction for manufacturing services and financing.

Under the manufacturing/sublicense component of the Visser MTA Agreement, the Company has agreed to engage Visser as a perpetual, exclusive manufacturer of non-consumer electronic products and to not, directly or indirectly, conduct manufacturing operations, subcontract for the manufacture of products or components or grant a license to any other party to conduct manufacturing operations, except for certain limited exceptions. Further, the Company has agreed to sublicense to Visser, on a fully-paid up, royalty-free, irrevocable, perpetual, worldwide basis, all intellectual property rights held by the Company. In addition, Visser has a right of first refusal over any proposed transfer by the Company of its technology pursuant to any license, sublicense, sale or other transfer, other than a license to a machine or alloy vendor.

Under the financing component of the Visser MTA Agreement, the Company issued and sold to Visser in a private placement transaction (i) 30,000,000 shares of common stock at a purchase price of $0.10 per share resulting in proceeds of $3,000, (ii) warrants to purchase 15,000,000 shares of common stock at an exercise price of $0.22 per share which expire on June 1, 2017 and (iii) a secured convertible promissory note (the "Promissory Note") in the aggregate principal amount of up to $2,000 which is convertible into shares of common stock at a conversion rate of $0.22 per share. The Promissory Note was issued pursuant to a $2,000 loan facility made available by Visser, but no borrowings will be made by the Company under this loan facility, as the deadline for making borrowings under the facility expires on November 15, 2012. All of the shares of common stock issued and issuable upon exercise or conversion of the warrants and the Promissory Note are subject to a lock-up period through December 31, 2016.

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The warrants under the Visser MTA Agreement contain certain anti-dilution and exercise price reset provisions which results in liability accounting under FASB ASC 815 (see note 9). In relation to the financing cost component to the Visser transaction, the Company performed a prorated allocation of the fair value of the warrants on the convertible promissory note and the common stock based on their relative fair values. The Company capitalized deferred financing costs in relation to the convertible promissory note totaling $1,355 and offset additional paid-in capital for $2,905 in relation to the warrant. The Company assessed the value of the deferred financing costs as of the quarter ended June 30, 2012 and determined that the value was impaired due to the limitations on the Company's ability to request for advances as discussed above. Therefore, the Company has expensed the deferred financing costs totaling $1,355 as of the quarter ended June 30, 2012.

In connection with the Visser MTA Agreement, the Company performed a valuation analysis of the manufacturing service and financing components of the Visser MTA Agreement as part of the bundled contract. The Company has assessed and determined that the values of the manufacturing component and sublicense component were immaterial. Further, the Company's weighted average market stock price was approximately $0.31 per share at the time of share issuances to Visser. As the actual share purchase price related to the financing component of the Visser MTA Agreement was $0.10 per share, the $0.21 per share difference was treated as manufacturing contract costs and $6,300 was expensed as operating expenses during the second quarter ended June 30, 2012.

Other Significant Transactions

On January 31, 2012, the Company and Engel Austria Gmbh ("Engel") entered into a Supply and License Agreement for a five year term whereby Engel was granted a non-exclusive license to manufacture and sell injection molding machines to the Company's licensees.

On November 16, 2011, the Company and Materion Brush Inc. ("Materion") entered into a Development Agreement to evaluate, analyze and develop amorphous alloy feedstock to be supplied in commercial quantities. Further, on June 17, 2012, the Company entered into a Sales Representation Agreement with Materion whereby Materion shall promote the sale of Liquidmetal's products for certain commissions. This agreement is for a two year initial term with annual, automatic renewals.

On January 17, 2012, February 27, 2012, March 28, 2012 and April 25, 2012, the Company issued 8% unsecured, bridge promissory notes to Visser that were due upon demand in the amounts of $200, $200, $350 and $300, respectively. The aggregate principal amount of $1,050 and accrued interest under the bridge promissory notes were all paid off on June 1, 2012 by utilizing a portion of the proceeds received under the financing component of the Visser MTA Agreement.

On December 20, 2011, the Company's former majority owned subsidiary, Liquidmetal Coatings, LLC ("LMC"), entered into a transaction pursuant to which LMC issued and sold additional membership interests to a related party and third-party investors for an aggregate purchase price of $3 million (the "LMC Investment"). The LMC Investment was entered into pursuant to a Membership Interest Purchase Agreement between the investors and LMC (the "Purchase Agreement"). The investors in the LMC Investment were Rockwall Holdings, Inc. ("Rockwall") and C3 Capital Partners, L.P. and C3 Capital Partners II, L.P. (the "C3 Entities"). The C3 Entities were minority investors in LMC prior to the transaction, and Rockwall is a company controlled by John Kang, a former Chief Executive Officer and

Chairman of the Company.

The transactions contemplated by the Purchase Agreement were deemed to be effective as of November 30, 2011. In connection with the LMC Investment, the Company and the C3 Entities agreed to terminate a letter agreement, dated July 30, 2010, under which the Company would have been obligated to contribute additional capital to LMC if requested by LMC. As a result of the LMC Investment and the termination of such letter agreement, the Company no longer has any contingent obligation to contribute additional capital to LMC and consequently, the Company's equity interest in LMC was reduced from approximately 72.86% to 0.67%. However, the Company did not sell any of its own membership interests in LMC in the transaction. As a result of the reduction in the Company's percentage interest in LMC, the Company no longer consolidates LMC's financial results with the Company's financial results and previous results of operations are reclassified as discontinued operations for financial reporting purposes. However, Ricardo Salas, the Company's Executive Vice President and Board member, continues to serve as a member of LMC's board of directors.

In connection with the LMC Investment, the Company entered into a Second Amended and Restated Operating Agreement with LMC and other members of LMC, and the Company also entered into a Second Amended and Restated License and Technical Support Agreement with LMC terminating certain technology cross-licenses between LMC and the Company and continuing LMC's right to use the Liquidmetal trademark in connection with LMC's business.

On December 1, 2011, the Company entered into a Share Purchase Agreement (the "Share Purchase Agreement") with LMTK Holdings, Inc. ("LMTK Holdings") to sell the Company's former Korean subsidiary and manufacturing facility, Liquidmetal Technologies Korea ("LMTK"), which was discontinued in November 2010. Under the Share Purchase Agreement, the Company sold all of LMTK's shares of common stock to LMTK Holdings for an aggregate purchase price of one hundred dollars. The previous results of operations of LMTK have been included as discontinued operations in the Company's consolidated financial statements, and as a result of the transaction, the Company no longer consolidates LMTK's financial results into the Company's consolidated financial statements.

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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, a former Chief Executive Officer and Chairman of the Company, 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. This promissory note is included in notes receivable in the Company's consolidated balance sheet. The Company believes that the balance of the promissory note is collectible and is currently in discussions with Mr. Kang to provide an extension of the due date for additional consideration. The results of operations of AMM are included as discontinued operations in the Company's consolidated statements of operations and comprehensive loss (see note 13).

On August 6, 2010, SAGA, SpA in Padova, Italy ("SAGA"), a specialist parts manufacturer, filed a litigation case against the Company claiming damages of $3.2 million for payment on an alleged loan and for alleged breach of contract in connection with the formation of joint venture called Liquidmetal SAGA Italy, Srl ("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 $2.8 million 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.

The number of Shares issued to SAGA on the Effective Date 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. On October 10, 2011, the Company issued to SAGA a promissory note in the principal amount of $1,712 due October 10, 2012, bearing interest of 8% per annum, to account for the decrease in the market price of the Company's common stock. On July 11, 2012, the Company paid $1,743 to SAGA and paid off all amounts owed under the SAGA promissory note.

On August 5, 2010, the Company entered into a license transaction with Apple Inc. ("Apple") pursuant to which (i) the Company contributed substantially all of its intellectual property assets to a newly organized special-purpose, wholly-owned subsidiary, called Crucible Intellectual Property, LLC ("CIP"), (ii) 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, in exchange for a license fee, 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. Additionally, in connection with the license transaction, Apple required the Company to complete a statement of work related to the exchange of Liquidmetal intellectual property information. The Company 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 at the completion of the required statement of work.

Under the agreements relating to the license transaction with Apple, the Company is obligated to contribute all intellectual property that it developed through February 2012 (and subsequently amended to extend through February

2014) to CIP. The Company is also obligated to maintain certain limited liability company formalities with respect to CIP at all times after the closing of the license transaction.

4. Liquidity and Going Concern Issues

For the nine months ended September 30, 2012, the Company's cash used in operating activities was $3,656, cash used in investing activities was $64, and cash provided by financing activities was $12,299. As of September 30, 2012, the Company had a cash balance of $8,701.

On July 2, 2012, the Company entered into the July 2012 Private Placement transaction whereby the Company issued $12,000 of senior convertible notes that have a due date of September 1, 2013. Monthly installment payments under the notes began on October 1, 2012, and the installment payments may be made in cash, shares of the Company's common stock, or a combination thereof (see Note 3). As of the filing date of this report, the Company has issued 15,897,856 shares of common stock in full satisfaction of the October 1, 2012 and November 1, 2012 installment payments and issued 8,401,434 shares of common stock in anticipation of making the December 3, 2012 installment payment with stock.

On October 10, 2011, the Company issued a promissory note to SAGA in the principal amount of $1,712 due October 10, 2012 in relation to a settlement agreement the Company signed with SAGA on April 6, 2011. On July 11, 2012, the Company paid $1,743 to SAGA and paid off all amounts owed under the SAGA promissory note (see Note 3).

On June 1, 2012, the Company entered into the Visser MTA Agreement, whereby under the financing component of the agreement, the Company issued and sold to Visser 30,000,000 shares of common stock at a purchase price of $0.10 per share resulting in proceeds of $3,000 (see Note 3).

The Company anticipates that its current capital resources will be sufficient to fund its operations through the end of 2013 as a result of the foregoing proceeds from the Visser MTA Agreement and the July 2012 Private Placement. However, if the Company chooses to or is required to pay back the notes issued in the July 2012 Private Placement in cash rather than in Company stock, the Company's current capital resources may not be sufficient to fund operations through the end of 2013. The Company has a relatively limited history of producing bulk amorphous alloy components and products on a mass-production scale. Furthermore, Visser's ability to produce the Company's products in desired quantities and at commercially reasonable prices is uncertain and is dependent on a variety of factors that are outside of its control, including the nature and design of the component, the customer's specifications, and required delivery timelines. Such factors may require that the Company raise additional funds to support its operations during 2013. If funding is insufficient at any time in the future, the Company may be required to alter or reduce the scope of its operations.

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5. Prepaid Expenses and Other Current Assets

On July 2, 2012, the Company entered into the July 2012 Private Placement (see note 3). In connection with this transaction, the Company capitalized legal and banking fees totaling $1,033 as deferred issuance costs. These deferred issuance costs will be amortized as debt discount amortization over the fourteen month term of the senior convertible notes under the transaction. Deferred issuance costs are included in prepaid expenses and other current assets in the Company's consolidated balance sheet and were $704 as of September 30, 2012, reflecting $329 of amortization expensed during the three months ended September 30, 2012.

6. Patents and Trademarks, net

Patents and trademarks totaled $––––901 and $968 as of September 30, 2012 and December 31, 2011, respectively, and it primarily consists of purchased patent rights and internally developed patents.

Purchased patent rights represent the exclusive right to commercialize the bulk amorphous alloy and other amorphous alloy technology acquired from California Institute of Technology ("Caltech"), through a license agreement with Caltech and other institutions. All fees and other amounts payable by the Company for these rights and licenses have been paid or accrued in full, and no further royalties, license fees or other amounts will be payable in the future under the license agreements.

In addition to the purchased and licensed patents, the Company has internally developed patents. Internally developed patents include legal and registration costs incurred to obtain the respective patents. The Company currently holds various patents and numerous pending patent applications in the United States, as well as numerous foreign counterparts to these patents outside of the United States.

Amortization expense for Patents and trademarks was $32 and $101 for the three and nine months ended September 30, 2012, respectively. Amortization expense for Patents and trademarks was $34 and $103 for the three and nine months ended September 30, 2011, respectively.

7. Short Term Debt

On October 10, 2011, the Company issued to SAGA a promissory note in the principal amount of $1,712 due October 10, 2012 bearing interest of 8% per annum as part of a settlement agreement entered by the Company and SAGA on April 6, 2011. This settlement agreement related to a litigation case that was filed by SAGA against the Company in connection with an alleged loan and for an alleged breach of contract in connection with the formation of a joint venture (see note 3).

The $1,712 principal amount of the note is included in Short Term Debt in the Company's consolidated balance sheet as of December 31, 2011. On July 11, 2012, the Company paid $1,743 to SAGA and paid off all amounts owed under the SAGA promissory note. Interest expense related to the promissory note for the three and nine months ended September 30, 2012 was $0 and $68, respectively.

On January 17, 2012, February 27, 2012, March 28, 2012 and April 25, 2012, the Company issued 8% unsecured, bridge promissory notes to Visser that were due upon demand in the amount of $200, $200, $350 and $300, respectively. The aggregate principal amount of $1,050 and accrued interest under the bridge promissory notes were all paid off on June 1, 2012 by utilizing a portion of the proceeds received under the financing component of the Visser MTA Agreement (see note 3). Interest expense on the bridge promissory notes was $0 and $18 for the three and nine months ended September 30, 2012, respectively.

8. Convertible Note and Embedded Conversion Feature Liability

On July 2, 2012, the Company entered into the July 2012 Private Placement for $12,000 in principal amount of senior convertible notes due on September 1, 2013 (see note 3). The notes will be convertible at any time at the option of the holders, into shares of the Company's common stock at a conversion price of $0.352 per share. Pursuant to ASC 815-40, due to the anti-dilution provision of the convertible notes, the conversion feature of the convertible notes is not indexed to the Company's owned stock and should be bifurcated and recognized as a derivative liability in the consolidated balance sheets and measured at fair value. The notes bear interest at 8% per annum and are payable in twelve equal monthly installments of principal and interest beginning on October 1, 2012.

The embedded conversion feature liability and warrants issued in connection with the senior convertible notes were valued utilizing the Monte Carlo simulation and Black Sholes pricing model at $8,865 and $5,053, respectively, totaling $13,918 as of July 2, 2012. $12,000 of this total was recorded as debt discount and the excess of the face value of the embedded conversion feature liability and warrants of $1,918 was booked to debt discount amortization on July 2, 2012.

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Pursuant to the terms of the senior convertible note, the Company opted to pay the first monthly installment payment due on October 1, 2012 with shares of the Company's common stock. On August 31, 2012, the Company issued 5,059,163 shares of common stock ("Pre-issuance") at a conversion price of $0.2451 in anticipation of making the October 1, 2012 installment payment of $1,240, consisting of $1,000 principal pay down and $240 of accrued interest.

Interest expense on the convertible notes was $240 for the three and nine months ended September 30, 2012 and the Convertible Note (net of debt discount) was $2,823 as of September 30, 2012 as follows:

	Convertible Note	Debt Discount	Net Total
Beginning Balance - January 1, 2012	$ -	$ -	$ -
Original valuation - July 2, 2012	12,000	(12,000)	-
Pre-issuance - August 31, 2012	(1,000)	-	(1,000)
Amortization	-	3,823	3,823
Ending Balance - September, 30, 2012	$ 11,000	$ (8,177)	$ 2,823