



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

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 May 2, 2014 was 434,535,255.

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**LIQUIDMETAL TECHNOLOGIES, INC.**  
**FORM 10-Q**  
**FOR THE QUARTER ENDED March 31, 2014**

**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,” “may,” “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, 2013 entitled “Risk Factors,” as well as the following risks and uncertainties:

- Our ability to fund our operations in the 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)**

	<b>March 31, 2014 (Unaudited)</b>	<b>December 31, 2013 (Audited)</b>
<b><u>ASSETS</u></b>		
Current assets:		
Cash	\$ 6,954	\$2,062
Trade accounts receivable, net of allowance for doubtful accounts	106	215
Prepaid expenses and other current assets	260	412
<b>Total current assets</b>	<b>\$ 7,320</b>	<b>\$2,689</b>
Property and equipment, net	224	249
Patents and trademarks, net	738	764
Other assets	380	401
<b>Total assets</b>	<b>\$ 8,662</b>	<b>\$4,103</b>
<b><u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u></b>		
Current liabilities:		
Accounts payable	472	361
Accrued liabilities	449	710
Convertible notes, net of debt discount	-	-
Embedded conversion feature liabilities on convertible notes	-	-
<b>Total current liabilities</b>	<b>\$ 921</b>	<b>\$1,071</b>
Long-term liabilities:		
Warrant liabilities	6,647	4,921
Other long-term liabilities	856	856
<b>Total liabilities</b>	<b>\$ 8,424</b>	<b>\$6,848</b>
Stockholders' equity (deficit):		

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Convertible, redeemable Preferred Stock, \$0.001 par value; 10,000,000 shares authorized; 0 shares issued and outstanding at March 31, 2014 and December 31, 2013.	-	-
Common stock, \$0.001 par value; 700,000,000 shares authorized at March 31, 2014 and December 31, 2013; 406,005,498 and 375,707,190 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	406	376
Warrants	18,179	18,179
Additional paid-in capital	189,697	182,832
Accumulated deficit	(207,999 )	(204,090 )
Non-controlling interest in subsidiary	(45 )	(42 )
<b>Total stockholders' equity (deficit)</b>	238	(2,745 )
<b>Total liabilities and stockholders' equity (deficit)</b>	\$ 8,662	\$4,103

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

**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS and COMPREHENSIVE LOSS**

(in thousands, except share and per share data)

(unaudited)

	<b>For the Three Months</b>	
	<b>Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Revenue		
Products	\$156	\$117
Licensing and royalties	4	5
<b>Total revenue</b>	160	122
Cost of sales	140	82
<b>Gross profit</b>	20	40
Operating expenses		
Selling, marketing, general and administrative	1,851	1,314
Research and development	334	236
<b>Total operating expenses</b>	2,185	1,550
<b>Operating loss</b>	(2,165)	(1,510)
Change in value of warrants, gain (loss)	(1,726)	510
Change in value of embedded conversion feature liabilities, gain	-	1,678
Debt discount amortization expense	(21)	(4,034)
Interest expense	-	(141)
Interest income	-	3
<b>Net loss</b>	(3,912)	(3,494)
Net loss attributable to non-controlling interest	3	-
<b>Net loss and comprehensive loss attributable to Liquidmetal Technologies shareholders</b>	\$(3,909)	\$(3,494)
<b>Net loss per common share attributable to Liquidmetal Technologies shareholders, basic and diluted</b>	\$(0.01)	\$(0.01)
<b>Number of weighted average shares - basic and diluted</b>	387,601,876	282,675,201

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





**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)****For the Three Months Ended March 31, 2014****(in thousands, except share data)****(unaudited)**

				Warrants				
	Preferred	Common	Common	part of	Additional	Accumulated	Non	Total
	Shares	Shares	Stock	Additional	Paid-in	Deficit	Controlling	Interest
				Paid-in	Capital		Interest	
				Capital				
<b>Balance, December 31, 2013</b>	-	375,707,190	\$ 376	\$ 18,179	\$ 182,832	\$ (204,090 )	\$ (42 )	\$ (2,745)
Common stock issuance		28,606,294	28		6,472			6,500
Stock option exercises		1,692,014	2		144			146
Stock-based compensation					171			171
Restricted stock issued to officer					78			78
Net loss						(3,909 )	(3 )	(3,912)
<b>Balance, March 31, 2014</b>	-	406,005,498	\$ 406	\$ 18,179	\$ 189,697	\$ (207,999 )	\$ (45 )	\$ 238

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

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

	<b>Three Months Ended March 31, 2014      2013</b>	
<b>Operating activities:</b>		
Net loss	\$(3,912)	\$(3,494)
Adjustments to reconcile net loss to net cash provided (used in) operating activities:		
Depreciation and amortization	52	44
Stock-based compensation	171	34
Restricted stock compensation issued to officer	78	78
Loss (Gain) from change in value of warrants	1,726	(510 )
Gain from change in value of embedded conversion feature liabilities	-	(1,678)
Debt discount amortization	21	4,034
Non -cash interest expense	-	140
Changes in operating assets and liabilities:		
Trade accounts receivable	109	(59 )
Prepaid expenses and other current assets	152	(179 )
Accounts payable and accrued expenses	(150 )	(35 )
Deferred revenue	-	5
<b>Net cash used in operating activities</b>	<b>(1,753)</b>	<b>(1,620)</b>
<b>Investing Activities:</b>		
Purchases of property and equipment	-	(36 )
Investment in patents and trademarks	(1 )	-
<b>Net cash used in investing activities</b>	<b>(1 )</b>	<b>(36 )</b>
<b>Financing Activities:</b>		
Proceeds from exercise of stock options	146	-
Proceeds from stock issuance	6,500	-
<b>Net cash provided by financing activities</b>	<b>6,646</b>	<b>-</b>
<b>Net increase (decrease) in cash</b>	<b>4,892</b>	<b>(1,656)</b>
<b>Cash at beginning of period</b>	<b>2,062</b>	<b>7,162</b>
<b>Cash at end of period</b>	<b>\$6,954</b>	<b>\$5,506</b>

**Supplemental Schedule of Non-Cash Investing and Financing Activities:**

Pre-installment payment of convertible debt and interest through common stock issuance	-	3,120
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The accompanying notes are an integral part of the consolidated financial statements.

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**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Three Months Ended March 31, 2014 and 2013**

(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 proprietary bulk alloys and composites that utilize the advantages offered by amorphous alloy 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.

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 structures that form 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 the Company’s 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 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, automotive components, oil and gas exploration, and sports and leisure goods, ii) selling tooling and prototype parts such as demonstration parts and test samples for customers with products in development, iii) product licensing and royalty revenue, and iv) research and development revenue.

**2. Basis of Presentation and Recent Accounting Pronouncements**

The accompanying unaudited interim consolidated financial statements as of and for the three months ended March 31, 2014 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 in consolidation. Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for any future periods or the year ending December 31, 2014. The accompanying unaudited consolidated financial statements should be read in conjunction with the Company's 2013 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 5, 2014.

### 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 are derived primarily from 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.

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 types of licensing agreements, the Company has no further obligation with respect to the grant of the license once the license is granted. Licensing revenues that are related to royalties are recognized as the royalties are earned over the related period.



**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Three Months Ended March 31, 2014 and 2013**

(numbers in thousands, except share and per share data)

(unaudited)

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, trade receivables, prepaid expenses and other current assets, accounts payable, and accrued liabilities 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.

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, that being liability classified 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 8).

The Company had one Level 3 financial instrument during the three-months ended March 31, 2013, that being an embedded conversion feature that was accounted for as a derivative and recorded at fair value on a periodic basis. The embedded derivative was 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 embedded derivative was estimated using the Monte Carlo simulation model. The foregoing embedded derivative had certain anti-dilution and exercise price reset provisions which qualified the embedded derivative to be classified as a liability under FASB ASC 815. Upon the final settlement of the senior convertible notes issued in the July 2012 Private Placement (as defined below), this liability was extinguished as the underlying conversion option had been executed. As such, the fair value of the liability was reduced to zero upon conversion during the third quarter of 2013 (see note 7).

As of March 31, 2014, 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:

	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Warrant liabilities	6,647	-	6,647	-

### Recent Accounting Pronouncements

#### *Offsetting Assets and Liabilities*

In December 2011 and December 2012, the FASB issued accounting standards updates modifying the disclosure requirements about the nature of an entity's rights of offsetting assets and liabilities in the consolidated balance sheet under master netting agreements and related arrangements associated with financial and derivative instruments. The guidance requires increased disclosure of the gross and net recognized assets and liabilities, collateral positions and narrative descriptions of setoff rights. The adoption of this pronouncement did not have a material impact on the Company's Consolidated Financial Statements and accompanying disclosures.

#### *Presentation of Items Reclassified out of Accumulated Other Comprehensive Income*



In February 2013, the FASB issued an accounting standards update which requires disclosure related to items reclassified out of accumulated other comprehensive income (“AOCI”). The guidance requires entities to present separately, for each component of other comprehensive income (“OCI”), current period reclassifications and the remainder of the current-period OCI. In addition, for certain current period reclassifications, an entity is required to disclose the effect of the item reclassified out of AOCI on the respective line item of net income. The adoption of this pronouncement did not have a material impact on the Company’s Consolidated Financial Statements and accompanying disclosures.

**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Three Months Ended March 31, 2014 and 2013**

**(numbers in thousands, except share and per share data)**

**(unaudited)**

*Joint and Several Liabilities*

In February 2013, the FASB issued an accounting standard update which modifies the requirements for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The guidance requires companies to measure these obligations as the sum of the amount the company has agreed with co-obligors to pay and any additional amount it expects to pay on behalf of one or more co-obligors. The adoption of this pronouncement did not have a material impact on the Company's Consolidated Financial Statements and accompanying disclosures.

*Presentation of Unrecognized Tax Benefits*

In July 2013, the FASB issued an accounting standards update which will require that an unrecognized tax benefit be presented on the balance sheet as a reduction of a deferred tax asset for a net operating loss or tax credit carryforward under certain circumstances. The adoption of this pronouncement did not have a material impact on the Company's Consolidated Financial Statements and accompanying disclosures.

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**

2013 Stock Purchase Agreement

On November 8, 2013, the Company entered into a Common Stock Purchase Agreement (the “2013 Purchase Agreement”) with Kingsbrook Opportunities Master Fund LP, Tech Opportunities LLC, and Iroquois Master Fund Ltd. (each, a “2013 Investor” and collectively, the “2013 Investors”). The 2013 Purchase Agreement provides that, upon the terms and subject to the conditions set forth therein, each of the 2013 Investors has committed to purchase such 2013 Selling Investor’s pro rata portion of up to \$20,000 (the “Total Commitment”) worth of the Company’s common stock, \$0.001 par value (the “Shares”), over the 36-month term of the 2013 Purchase Agreement. In consideration for the execution and delivery of the 2013 Purchase Agreement, on November 8, 2013, the Company issued 2,666,667 shares of common stock (“the Commitment Shares”) to the 2013 Investors.

From time to time over the term of the 2013 Purchase Agreement, the Company may, at its sole discretion, provide each of the 2013 Investors with draw down notices (each a “Draw Down Notice”) to purchase a specified dollar amount of Shares (the “Draw Down Amount”) over a five (5) consecutive trading day period commencing on the trading day specified in the applicable Draw Down Notice (the “Pricing Period”) with each draw down subject to the limitations discussed below. The maximum amount of Shares requested to be purchased pursuant to any single Draw Down Notice cannot exceed a dollar amount equal to the lesser of (i) 300% of the average trading volume of the Company’s common stock during the ten (10) trading days immediately preceding the date the applicable Draw Down Notice is delivered (the “Applicable Draw Down Exercise Date”) multiplied by the lower of (A) the closing trade price of the Company’s common stock on the trading day immediately preceding the Applicable Draw Down Exercise Date and (B) the average of the closing trade prices of our common stock for the three (3) trading days immediately preceding the Applicable Draw Down Exercise Date (such lower price, the “Reference Price”), and (ii) a specified dollar amount set forth in the 2013 Purchase Agreement based on the Reference Price as of the Applicable Draw Down Exercise Date.

Once presented with a Draw Down Notice, each of the 2013 Investors is required to purchase such 2013 Investor’s pro rata portion of the applicable Draw Down Amount on each trading day during the applicable Pricing Period on which the daily volume weighted average price for the Company’s common stock (the “VWAP”) equals or exceeds an applicable floor price equal to the product of (i) 0.775 and (ii) the Reference Price, subject to adjustment (the “Floor Price”), provided that in no event shall the Floor Price be less than \$0.03875. If the VWAP falls below the applicable Floor Price on any trading day during the applicable Pricing Period, the 2013 Purchase Agreement provides that the 2013 Investors will not be required to purchase their pro rata portions of the applicable Draw Down Amount allocated to that trading day. The per share purchase price for the Shares subject to a Draw Down Notice shall be equal to 90% of the lowest daily VWAP that equals or exceeds the applicable Floor Price during the applicable Pricing Period. Each purchase pursuant to a draw down shall reduce, on a dollar-for-dollar basis, the Total Commitment under the 2013 Purchase Agreement.

The Company is prohibited from issuing a Draw Down Notice if (i) the amount requested in such Draw Down Notice exceeds the Maximum Draw Down Amount, (ii) the sale of Shares pursuant to such Draw Down Notice would cause the Company to issue or sell or the 2013 Investors to acquire or purchase an aggregate dollar value of Shares that would exceed the Total Commitment, (iii) the sale of Shares pursuant to the Draw Down Notice would cause the Company to sell or the 2013 Investors to purchase an aggregate number of shares of the Company’s common stock which would result in the collective beneficial ownership by the 2013 Investors of more than 9.99% of the Company’s common stock (as calculated pursuant to Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder), or (iv) the applicable Floor Price would be less than \$0.03875 on the Applicable Draw Down Exercise Date. The Company cannot make more than one draw down in any Pricing Period and must allow two (2) trading days to elapse between the completion of the settlement of any one draw down and the

commencement of a Pricing Period for any other draw down.

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**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Three Months Ended March 31, 2014 and 2013**

(numbers in thousands, except share and per share data)

(unaudited)

On February 11, 2014 an initial registration statement, covering 96,555,893 shares issued and issuable pursuant to the 2013 Purchase Agreement, was declared effective by the SEC.

As of March 31, 2014, the Company has received an aggregate of \$6,500 under the 2013 Purchase Agreement through the issuance of 28,606,294 shares of its common stock at a weighted average price of \$0.23 per share (see note 15).

July 2012 Private Placement

On July 2, 2012, the Company entered into a private placement transaction (the "July 2012 Private Placement") pursuant to which the Company issued \$12,000 in principal amount of senior convertible notes that were due on September 1, 2013. The notes were convertible into shares of the Company's common stock at a conversion price of \$0.352 per share. The notes bore interest at 8% per annum and were payable in twelve equal monthly installments of principal and interest beginning on October 1, 2012. Each monthly installment payment was payable in cash, shares of the Company's common stock, or a combination thereof. If paid in shares, such shares were valued at the lower of (i) the then applicable conversion price or (ii) a price that was 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 elected to pay in shares, whichever was lower. As of July 17, 2013, the Company had issued 163,641,547 shares of common stock in full satisfaction of the notes (see note 7).

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 (subsequently reduced to \$0.37 per share under the anti-dilution provision of the warrants, see note 8), and such warrants first became exercisable on January 2, 2013 which was six months after 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 will 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 8).

June 2012 Visser MTA Agreement

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 and service 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. Visser’s use of such sublicense is limited to the exercise of its manufacturing rights, provided that such limitation will terminate if the Company fails to comply with certain technical, administrative, and research and development support obligations set forth in the transaction agreements with Visser and such failure is not cured within 60 days. 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 (subsequently increased to 18,562,825 shares under the anti-dilution provision of the warrants, see note 8) at an original exercise price of \$0.22 per share (subsequently reduced to \$0.18 per share under the anti-dilution provision of the warrants, see note 8) 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 was 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 were made by the Company under this loan facility, and the deadline for making borrowings under the facility expired on November 15, 2012. All of the shares of common stock issuable upon exercise of the warrants are subject to a lock-up period through December 31, 2016.

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 8).

In November 2013, the Company and Visser entered into arbitration proceedings to resolve disputes associated with the Visser MTA Agreement (see note 13).



**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Three Months Ended March 31, 2014 and 2013**

**(numbers in thousands, except share and per share data)**

**(unaudited)**

Apple License Transaction

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 was obligated to contribute all intellectual property that it developed through February 2012. Subsequently, this obligation was extended to apply to all intellectual property developed through February 2014. 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.

Other License Transactions

On January 31, 2012, the Company entered into a Supply and License Agreement for a five year term with Engel Austria GmbH (“Engel”) whereby Engel was granted a non-exclusive license to manufacture and sell injection molding machines to the Company’s licensees. Since that time, the Company and Engel have agreed on an injection molding machine configuration that can be commercially supplied and supported by Engel. On December 6, 2013, the companies entered into an Exclusive License Agreement for a 10 year term whereby Engel was granted an exclusive license to manufacture and sell injection molding machines to the Company’s licensees in exchange for certain royalties to be paid by Engel to the Company based on a percentage of the net sales price of such injection molding machines.



On November 16, 2011, the Company entered into a Development Agreement with Materion Brush Inc. (“Materion”) 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 will promote the sale of the Company’s products for certain commissions. This agreement is for a two year initial term with annual, automatic renewals. To date, there have been no commission payments related to this agreement.

The Company’s Liquidmetal Golf subsidiary has the exclusive right and license to utilize the Company’s Liquidmetal alloy technology for purposes of golf equipment applications. This right and license is set forth in an intercompany license agreement between Liquidmetal Technologies and Liquidmetal Golf. This license agreement provides that Liquidmetal Golf has a perpetual and exclusive license to use Liquidmetal alloy technology for the purpose of manufacturing, marketing, and selling golf club components and other products used in the sport of golf. Liquidmetal Technologies owns 79% of the outstanding common stock of Liquidmetal Golf.

In June 2003, the Company entered into an exclusive license agreement with LLPG, Inc. (“LLPG”). 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.

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 rights. The Company will receive royalty payments over the life of the contract on all Liquidmetal products produced and sold by Swatch. The license agreement with Swatch will expire on the expiration date of the last licensed patent.

#### **4. Liquidity and Capital Resources**

The Company’s cash used in operations was \$1,753 for the three months ended March 31, 2014, cash used in investing activities was \$1 for the three months ended March 31, 2014, and cash provided by financing activities was \$6,646 for the three months ended March 31, 2014. As of March 31, 2014, the Company’s cash balance was \$6,954.

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On November 8, 2013, the Company entered into the 2013 Purchase Agreement that will allow it to raise up to \$20,000 through periodic issuances of common stock over a three year period. As of March 31, 2014, the Company had received an aggregate of \$6,500 under the 2013 Purchase Agreement through the issuance of 28,606,294 shares of its common stock (see note 15).

The Company anticipates that its current capital resources, when considering expected losses from operations, will be sufficient to fund the Company's operations through the middle of 2015. 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 the Company's control, including the nature and design of the component, the customer's specifications, and required delivery timelines. These factors, combined with additional liquidity requirements associated with the expenses incurred in connection with the Visser arbitration proceedings, will likely require that the Company make draw-downs under the 2013 Purchase Agreement, raise additional funds by other means, or pursue other strategic initiatives to support its operations beyond the middle part of 2015. There is no assurance that the Company will be able to continue to make draw-downs under the 2013 Purchase Agreement or raise additional funds by other means on acceptable terms, if at all. If the Company were to continue to make draw-downs under the 2013 Purchase Agreement or to raise additional funds through other means by issuing securities, existing stockholders may be diluted. If funding is insufficient at any time in the future, the Company may be required to alter or reduce the scope of its operations or to cease operations entirely. Uncertainty as to the outcome of these factors raises substantial doubt about the Company's ability to continue as a going concern.

**5. Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets totaled \$260 and \$412 as of March 31, 2014 and December 31, 2013, respectively and primarily consisted of prepaid invoices and insurance premiums that will be reclassified to expense as shipments are made to customers or services are provided.

**6. Patents and Trademarks, net**

Net patents and trademarks totaled \$738 and \$764 as of March 31, 2014 and December 31, 2013, respectively, and it primarily consisted 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 agreement.

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.

The Company amortizes capitalized patents and trademarks over an average of 10 to 17 year periods. Amortization expense for patents and trademarks was \$27 and \$33 for the three month periods ended March 31, 2014 and 2013, respectively.

## **7. Convertible Note and Embedded Conversion Feature Liability**

On July 2, 2012, the Company entered into the July 2012 Private Placement pursuant to which it issued \$12,000 in principal amount of Senior Convertible Notes (“Senior Convertible Notes”) that were due on September 1, 2013 (see note 3). Pursuant to ASC 815-40, due to the anti-dilution provision of the notes, the conversion feature of the notes is not indexed to the Company’s own stock and should be bifurcated and recognized as a derivative liability in the consolidated balance sheets and measured at fair value. The notes bore interest at 8% per annum and were 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.

Pursuant to the terms of the Senior Convertible Notes, the Company opted to pay the first eleven monthly installment payments due prior to June 30, 2013 with shares of the Company’s common stock. On July 17, 2013, the Company and each of the holders of the Senior Convertible Notes due on September 1, 2013, in the original aggregate principal amount of \$12,000, agreed to cause all remaining principal and interest under the Senior Convertible Notes to be

converted into an aggregate of 18,679,584 shares of the Company's common stock in full satisfaction of the notes. As a result of this conversion, the Senior Convertible Notes were paid off in full and are no longer outstanding as of the conversion date. As the final conversion occurred pursuant to terms that were not included in the original terms of the Senior Convertible Notes, the Company recorded a gain on extinguishment of debt in the amount of \$91 which consisted of the write-off of unamortized debt discount, unamortized debt issuance costs, embedded conversion feature liabilities, and the difference between the reacquisition price of the shares issued and the contractual conversion price of the Senior Convertible Notes.

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Upon final settlement, the Company had issued 163,641,547 shares of common stock, at a weighted average conversion price of \$0.0774, for the twelve installment payments due under the notes, consisting of \$12,000 principal and \$680 of interest.

Interest expense on the Senior Convertible Notes was \$0 and \$140 for the three month periods ended March 31, 2014 and 2013, respectively.

**8. Warrant Liability**

Pursuant to FASB ASC 815, the Company is required to report the value of certain warrants 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 due to the price-based anti-dilution rights of the warrants.

During June 2012, the Company issued warrants to purchase a total of 15,000,000 shares of common stock to Visser under the Visser MTA Agreement (see note 3). These warrants had an original exercise price of \$0.22 per share, expire on June 1, 2017 and were originally valued at \$4,260. These warrants have certain anti-dilution and exercise price reset provisions which qualify the warrants to be classified as a liability under FASB ASC 815. As a result of paying down the Senior Convertible Notes with common stock, which resulted in an anti-dilution impact, the exercise price of these warrants was reduced to \$0.18 as of March 31, 2014 and December 31, 2013. In addition, the number of shares to be issued under the warrants as a result of the anti-dilution provision increased to 18,562,825 as of March 31, 2014 and December 31, 2013. As of March 31, 2014, these warrants were valued at \$3,586 under the Black Scholes valuation model utilizing the following assumptions: (i) expected life of 3.17 years, (ii) volatility of 112%, (iii) risk-free interest rate of 0.9%, and (iv) dividend rate of 0. The change in warrant value for these warrants for the three months ended March 31, 2014 was a loss of \$1,027.

On July 2, 2012, the Company issued warrants to purchase a total of 18,750,000 shares of common stock related to the July 2012 Private Placement (see note 3). These warrants have an exercise price of \$0.384 per share and expire on July 2, 2017 and were originally valued at \$5,053. 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. As a result of executed draw-downs under the Stock Purchase Agreement, which resulted in an anti-dilution impact, the exercise price of these warrants was reduced to \$0.37 as of March 31, 2014. As of March 31, 2014, these warrants were valued at \$3,061 under the Black Sholes valuation model utilizing the following assumptions: (i) expected life of 3.26 years, (ii) volatility of 111%, (iii) risk-free interest rate of 0.9%, and (iv) dividend rate of 0. The change in warrant value for these warrants for the three months ended March 31, 2014 was a loss of \$699.

The following table summarizes the change in the Company's warrant liability as of March 31, 2014:

	<b>Visser MTA Agreement</b>	<b>July 2, 2012 Private Placement</b>	<b>Total</b>
Beginning Balance - December 31, 2013	\$ 2,559	\$ 2,362	4,921
Change in value of warrant liability, loss	1,027	699	1,726
Ending Balance - March 31, 2014	\$ 3,586	\$	