LIQUIDMETAL TECHNOLOGIES INC
Form S-1/A
July 03, 2007

As filed with the Securities and Exchange Commission on June 29, 2007

Registration No. 333-142442

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1 to

FORM S-1

REGISTRATION STATEMENT
Under

THE SECURITIES ACT OF 1933

LIQUIDMETAL TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**3399**	**33-0264467**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

Liquidmetal Technologies, Inc.

30452 Esperanza

Rancho Santa Margarita, California 92688

(949) 635-2100

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

Larry Buffington

President and Chief Executive Officer

Liquidmetal Technologies, Inc.

30452 Esperanza

Rancho Santa Margarita, California 92688

Phone: (949) 635-2100

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

with a copy to:

Curt P. Creely
Foley & Lardner LLP
100 North Tampa Street, Suite 2700
Tampa, Florida 33602
Phone: (813) 229-2300/Fax: (813) 221-4210

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Amount to Be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock issuable upon conversion of Convertible Subordinated Notes Due January 2010	7,537,385 shares	$ 1.10 (1)	$ 8,291,124	$ [ ]
Common Stock issuable upon exercise of warrants	3,895,208 shares	$ 1.55 (2)	$ 6,037,572	$ [ ]
Common Stock issuable upon exercise of warrants	599,547 shares	$ 2.13 (3)	$ 1,277035	$ [ ]
TOTAL	12,032,140 shares		$ 15,605,731	$ [ ] (4)

(1) The price is estimated in accordance with Rule 457(g) under the Securities Act solely for the purpose of calculating the registration fee and is $1.10, the conversion price of the Convertible Subordinated Notes Due January 2010 as amended.

(2) The price is estimated in accordance with Rule 457(g) under the Securities Act solely for the purpose of calculating the registration fee and is $1.55, the exercise price of the warrants issued in January 2007 as amended.

(3) The price is estimated in accordance with Rule 457(g) under the Securities Act solely for the purpose of calculating the registration fee and is $2.13, the exercise price of the shares issuable upon exercise of the warrants issued between May 17, 2006 and December 1, 2006, as adjusted.

(4) Previously paid.

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

PROSPECTUS

LIQUIDMETAL TECHNOLOGIES, INC.

12,032,140 Shares

Common Stock

This prospectus covers a total aggregate of up to 12,032,140 shares of our common stock, par value $0.001 per share, that may be offered from time to time by the selling stockholders identified on pages 27 of this prospectus. The shares being offered by this prospectus consist of:

- up to 7,537,385 shares issuable upon the conversion of our Convertible Subordinated Notes Due January 2010 issued by us in connection with a private placement in January 2007;

- up to 3,895,208 shares issuable upon the exercise of common stock purchase warrants issued by us in our January 2007 private placement; and

- up to 599,547 shares issuable upon the exercise of common stock purchase warrants issued by us between May 17, 2006 and December 1, 2006 in connection with a private placement of non-convertible subordinated notes.

We are registering these shares of our common stock for resale by the selling stockholders named in this prospectus, or their transferees, pledgees, donees or successors. We will not receive any proceeds from the sale of these shares by the selling stockholders. These shares are being registered to permit the selling stockholders to sell shares from time to time in the public market, in amounts, at prices and on terms determined at the time of offering. The selling stockholders may sell this common stock through ordinary brokerage transactions, directly to market makers of our shares or through any other means described in the section entitled Plan of Distribution beginning on page 93.

Before purchasing any of the shares covered by this prospectus, carefully read and consider the risk factors in the section entitled Risk Factors beginning on page 1.

Our common stock is quoted on the OTC Bulletin Board under the symbol LQMT.OB. On June 28, 2007, the last reported sales price of our common stock was $0.86 per share.

Our principal executive offices are located at 30452 Esperanza, Rancho Santa Margarita, California 92688, and our telephone number at that address is (949) 635-2100.

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

The date of this prospectus is , 2007.

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

TABLE OF CONTENTS

PROSPECTUS SUMMARY

RISK FACTORS

FORWARD-LOOKING STATEMENTS

DESCRIPTION OF PRIVATE PLACEMENT AND CONVERTIBLE NOTES

SELLING STOCKHOLDERS

USE OF PROCEEDS

DIVIDEND POLICY

MARKET FOR AND PRICE RANGE OF THE COMMON STOCK

SELECTED FINANCIAL DATA

SUPPLEMENTARY FINANCIAL INFORMATION

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

BUSINESS

PROPERTIES

MANAGEMENT

COMPENSATION DISCUSSION AND ANALYSIS

PRINCIPAL STOCKHOLDERS

DESCRIPTION OF CAPITAL STOCK

PLAN OF DISTRIBUTION

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

CHANGES OF ACCOUNTANTS

UNITED STATES FEDERAL INCOME TAX CONSIDERATION

LEGAL MATTERS

EXPERTS

WHERE YOU CAN FIND MORE INFORMATION

INDEX TO FINANCIAL STATEMENTS

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

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. The common stock is not being offered in any jurisdiction where the offer is not

permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of the common stock.

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

i

PROSPECTUS SUMMARY

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

Liquidmetal Technologies, Inc.

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

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

Our Strategy

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

- Identifying and developing new applications for our Liquidmetal alloy technology;
- Focusing our marketing and internal manufacturing activities on select products with expected higher gross margins;
- Further developing our manufacturing processes, capabilities, and efficiencies for bulk Liquidmetal alloys;
- Pursuing strategic partnerships in order to more rapidly develop and commercialize products; and
- Advancing and further developing the Liquidmetal® brand to increase awareness of our company and technology.

Applications for Liquidmetal Alloys

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

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

- *Sporting goods and leisure products.* We are developing a variety of applications for Liquidmetal alloys in the sporting goods and leisure products area. In 2003, Rawlings Sporting Goods Company launched a new line of baseball and softball bats that utilize a Liquidmetal alloy coating, and HEAD NV Sport launched a new line of HEAD® Liquidmetal® tennis racquets that incorporates Liquidmetal alloy in composite form in their racquet design. In 2005, we also launched goods that utilize Liquidmetal alloy including skis. Other potential applications for our alloys in this industry include golf clubs, eyewear, fishing, hunting, and other sport products.

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

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

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

Risk Factors / Going Concern

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

We have experienced significant operating losses since our inception. Our net loss for the fiscal years ended December 31, 2006 and 2005 was $14.5 million and $7.1 million, respectively. For the three months ended March 31, 2007 and 2006, we had a net income of $0.5 million and a net loss of $6.0 million, respectively. In the audit report on our financial statements for our fiscal years ended December 31, 2006 and 2005, our present auditors included a going-concern qualification indicating that our significant operating losses and working capital deficit cause substantial doubt about our ability to continue as a going concern. By issuing an opinion stating that there is substantial doubt about our ability to continue as a going concern, our auditors have indicated that they are uncertain as to whether we have the capability to continue our operations without additional funding. On January 3, 2007, we completed a private placement of $16.3 million in principal amount of 8% Convertible Subordinated Notes due January 2010 (the January 2010 Notes). The January 2010 Notes were issued for aggregate cash in the amount of $12.9 million and in payment of a total of $3.4 million in principal and accrued but unpaid interest under our previously issued 7% Senior Secured Convertible Notes due August 2007 and our 8% Unsecured Subordinated Notes.

We anticipate that the $12.9 million aggregate cash raised in the private placement will be sufficient to pursue our current operating plan only through the third quarter of 2007, and we will therefore require additional funding at or prior to that time. As a result, we are actively seeking additional sources of capital. The amount of funding that we seek and the timing of such fundraising efforts will depend on the extent to which we are able to increase revenues through obtaining additional purchase orders for our products and/or the extent to which we can restructure or modify our debt. Because we cannot be certain that we will be able to obtain adequate funding from debt, equity, or other traditional financing sources, we are also actively exploring several strategic financing options, including the possible sale of our manufacturing plant in South Korea (which would then be replaced with a smaller facility), potential licensing and outsourcing of manufacturing operations including those in South Korea and China, and the possible sale of all or a part of our Liquidmetal Coatings business or our interest in such business. In June 2007, we entered into an equipment sale and licensing agreement with Grace Metal, a South Korean corporation, providing for $2.0 million in exchange for die casting machines and vacuum induction melters, and a 10-year exclusive license to manufacture Liquidmetal alloys for customers whose principal headquarters or major operations are based in South Korea. The principal purpose of the transactions with Grace Metal was to raise capital for the next-generation casting equipment and to shift the cost and burden of our manufacturing operations to a third party. Grace Metal was formed by an investor group that includes the former Founder and director of our company, James Kang, who is also the brother of John Kang, Chairman of the Board of our company. We cannot guarantee that adequate funds will be available when needed, and if we do not receive sufficient capital, we may be required to alter or reduce the scope of our operations.

Corporate Information

We were originally incorporated in California in 1987, and we reincorporated in Delaware in May 2003. Our principal executive offices are located at 30452 Esperanza, Rancho Santa Margarita, California 92688. Our telephone number at that address is (949) 635-2100 Our Internet website address is www.liquidmetal.com, and all of our filings with the Securities and Exchange Commission are available free of charge on our website. Any information that is included on or linked to our Internet site is not a part of this prospectus.

2

The Offering

Common stock offered	Up to 12,032,140 shares are being offered by the selling stockholders. Of these shares: • up to 7,537,385 shares are issuable upon the conversion of our Convertible Subordinated Notes Due January 2010 (the January 2010 Notes), which notes were issued by us to various selling stockholders in a private placement on January 3, 2007; • up to 3,895,208 shares are issuable to various selling stockholders upon the exercise of outstanding common stock purchase warrants issued by us in our January 2007 private placement and have an amended exercise price of $1.55 per share; and • up to 599,547 shares are issuable to various selling stockholders upon the exercise of outstanding common stock purchase warrants issued by us on May 17, 2006, September 20, 2006, and December 1, 2006 in connection with a private placement of non-convertible subordinated notes and have an adjusted exercise price of $2.13 per share.
Shares outstanding after the offering	56,663,908 shares
Use of proceeds	We will not receive any proceeds from the sale of the shares offered by the selling stockholders. Any proceeds we receive from the selling stockholders upon their exercise of the warrants or option to purchase the shares included in the shares that are being offered by them hereunder will be used for general working capital.
Risk factors	See RISK FACTORS and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in the shares.
OTC Bulletin Board symbol	LQMT.OB

The number of shares of common stock that will be outstanding immediately after this offering is based on 44,631,768 shares outstanding as of June 1, 2007 and assumes the full conversion of the convertible promissory notes and the full exercise of the warrants identified above. There is no guarantee that all or any of such notes or warrants will be converted or exercised. The number of shares of common stock to be outstanding after this offering does not include 7,028,414 shares issuable pursuant to common stock options outstanding as of June 1, 2007 under our equity incentive plans, of which options to purchase 5,873,151 shares were exercisable as of such date at a weighted-average exercise price of $5.15 per share, and 8,683,173 additional shares of common stock reserved for future grants under our equity compensation plans. The number of shares of common stock to be outstanding after this offering also does not include the shares underlying our 6% Senior Secured Notes Due July 29, 2007 (the July 2007 Notes), our 7% Senior Secured Convertible Notes Due August 2, 2007 (the August 2007 Notes), and the warrants issued in connection with such notes. As of June 1, 2007, an aggregate of 10,632,606 shares of our common stock were issuable pursuant to the conversion or exercise of such notes and warrants.

The convertible notes identified above are convertible into such number of shares of our common stock as is determined by dividing the outstanding principal balance of such notes by the conversion price of the notes. As of June 1, 2007, approximately $2.1 million in aggregate principal amount of July 2007 Notes were outstanding at a conversion price of $1.00 per share, approximately $7.2 million in aggregate principal amount of August 2007 Notes were outstanding at an adjusted conversion price of $1.75 per share, and approximately $16.3 million in aggregate principal amount of January 2010 Notes were outstanding at a conversion price of $1.10. The warrants identified above are exercisable at the price per share indicated above. However, the above-described notes and warrants contain anti-dilution provisions that may result in a reduction of these conversion and exercise prices if we issue shares in the future for consideration below the existing conversion or exercise prices. Such anti-dilution provisions may cause a decrease in the voting power and value of your investment in our shares. See

DESCRIPTION OF CAPITAL STOCK Anti-Dilution Provisions in Notes and Warrants.

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

3

Summary Consolidated Financial Data

The following summary consolidated financial data as of and for our years ended December 31, 2006, 2005, 2004, 2003 and 2002 have been derived from our audited consolidated financial statements, and the summary consolidated financial data as of and for the three months ended March 31, 2006, and 2005 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. Such unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles). Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for any future periods or the year ending December 31, 2007. In the opinion of management, all adjustments (consisting of only of normal recurring accruals) considered necessary for a fair presentation have been included. The following information should be read together with MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS and our Consolidated Financial Statements and Notes thereto included elsewhere in this prospectus. The historical results presented below are not necessarily indicative of future results. The summary consolidated financial data should be read in conjunction with notes to the fiscal year 2006 consolidated financial statements included in this prospectus and in the fiscal 2003 annual report on Form 10-K filed on November 10, 2004, which reflects the restatements of prior year transactions.

	Three Months Ended		**Years Ended December 31,**				
	2007	**2006 (Restated)**	**2006**	**2005 (Restated)**	**2004 (Restated)**	**2003**	**2002 (Restated)**
	(Unaudited)						
	(In thousands, except per share data)						
Consolidated Statements Of Operation Data:							
Revenue	$ 5,067	$ 6,555	$ 27,669	$ 16,365	$ 17,429	$ 13,658	$ 9,138
Cost of sales	6,441	5,324	22,418	15,129	12,168	18,162	5,656
Gross (loss) profit	(1,374)	1,231	5,251	1,236	5,261	(4,504)	3,482
Operating expenses:							
Selling, general, and administrative expenses	2,532	2,705	9,962	8,534	11,591	17,729	13,099
Research and development expenses	263	203	950	1,120	1,467	8,780	11,825
Impairment of Goodwill						184	
Impairment of long lived assets				4,487		2,684	
Total operating expenses	2,795	2,908	10,912	14,141	13,058	29,377	24,924
Loss before interest, other income, income taxes, minority interest and discontinued operations	(4,169)	(1,677)	(5,661)	(12,905)	(7,797)	(33,881)	(21,442)
Loss from extinguishments of debt	(648)			(1,247)	(2,941)		
Change in value of warrants, gain (loss)	3,692	(1,289)	279	3,985	747		
Change in value of conversion feature, gain (loss)	4,344	(1,783)	(226)	9,118	2,093		
Other income		480	572		302		
Interest expense	(2,763)	(1,782)	(9,509)	(6,021)	(6,577)	(390)	(1,109)
Interest income	61	2	23	17	37	304	506
Gain on sale of marketable securities held for sale						1,178	832
Income (loss) before minority interest and discontinued operations	517	(6,049)	(14,522)	(7,053)	(14,136)	(32,789)	(21,213)
Minority interest in loss of consolidated subsidiary						21	118
Income loss from continuing operations	517	(6,049)	(14,522)	(7,053)	(14,136)	(32,768)	(21,095)
Discontinued Operations:							
(Loss) gain income from discontinued operations, net					(749)	(964)	83

Gain from disposal of discontinued operations, net						127	1,556
Net income (loss)	$ 517	$ (6,049)	$ (14,522)	$ (7,053)	$ (14,885)	$ (33,605)	$ (19,456)
Income (loss) per share from continuing operations	$ 0.01	$ (0.14)	$ (0.33)	$ (0.17)	$ (0.34)	$ (0.79)	$ (0.54)
(Loss) gain per share from discontinued operations	$	$	$	$	$ (0.02)	$ (0.02)	$ 0.04
Net income (loss) per share	$ 0.01	$ (0.14)	$ (0.33)	$ (0.17)	$ (0.36)	$ (0.81)	$ (0.50)
Weighted average shares - basic and diluted	44,925	42,817	43,809	41,833	41,610	41,505	38,714

	As of March 31, 2007 (Unaudited) (In thousands)	**As of December 31, 2006**	**2005 (Restated)**	**2004 (Restated)**	**2003**	**2002 (Restated)**
Consolidated Balance Sheet Data:						
Cash and cash equivalents	$ 2,937	$ 144	$ 1,392	$ 742	$ 3,127	$ 25,058
Working capital (deficit)	(16,066)	(23,157)	(10,993)	(14,910)	(698)	25,812
Total assets	25,735	22,244	21,563	28,508	30,852	24,845
Long-term debt, including current portion, net of discount	18,255	14,705	6,776	6,628	4,047	
Shareholders equity (deficiency)	(9,322)	(10,363)	(1,320)	4,191	16,163	50,599

RISK FACTORS

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

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

We have experienced significant operating losses since our inception. Our net loss for the fiscal years ended December 31, 2006, 2005, and 2004, was $14.5 million, $7.1 million, and $14.9 million, respectively. For the three months ended March 31, 2007 and 2006, we had a net income of $0.5 million and a net loss of $6.0 million, respectively. We had an accumulated deficit of approximately $148.5 million at March 31, 2007. Of this accumulated deficit, $44.5 million was attributable to losses generated by our discontinued equipment manufacturing and retail golf. We anticipate that we may continue to incur operating losses for the foreseeable future. Consequently, it is possible that we may never achieve positive earnings and, if we do achieve positive earnings, we may not be able to achieve them on a sustainable basis.

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

Our future capital requirements will depend on the amount of cash generated by our operations. Our projections of cash flows from operations and, consequently, future cash needs are subject to substantial uncertainty. In addition, in our audit report on our financial statements for our fiscal years ended December 31, 2006 and 2005, our auditors included a going-concern qualification indicating that our significant operating losses and working capital deficit cause substantial doubt about our ability to continue as a going concern. By issuing an opinion stating that there is substantial doubt about our ability to continue as a going concern, our auditors have indicated that they are uncertain as to whether we have the capability to continue our operations without additional funding. On January 3, 2007, we completed a private placement of $16.3 million in principal amount of 8% Convertible Subordinated Notes due January 2010 (the January 2010 Notes). The January 2010 Notes were issued for aggregate cash in the amount of $12.9 million and in payment of a total of $3.4 million in principal and accrued but unpaid interest under our previously issued 7% Senior Secured Convertible Notes Due August 2007 and our previously issued 8% Unsecured Subordinated Notes.

We anticipate that the $12.9 million aggregate cash raised in the private placement will be sufficient to pursue our current operating plan only through the third quarter of 2007, and we will therefore require additional funding at or prior to that time. As a result, we are actively seeking additional sources of capital. The amount of funding that we seek and the timing of such fundraising efforts will depend on the extent to which we are able to increase revenues through obtaining additional purchase orders for our products and/or the extent to which we can restructure or modify our debt. Because we cannot be certain that we will be able to obtain adequate funding from debt, equity, or other traditional financing sources, we are also actively exploring several strategic financing options, including the possible sale of our manufacturing plant in South Korea (which would then be replaced with a smaller facility), potential licensing and outsourcing of manufacturing operations including those in South Korea and China, and the possible sale of our Liquidmetal Coatings business. In June 2007, we entered into an equipment sale and licensing agreement with Grace Metal, a South Korean corporation, providing for $2.0 million in exchange for die casting machines and vacuum induction melters, and a 10-year exclusive license to manufacture Liquidmetal alloys for customers whose principal headquarters or major operations are based in South Korea. The principal purpose of the transactions with Grace Metal was to raise capital for the next-generation casting equipment and to shift the cost and burden of our manufacturing operations to a third party. Grace Metal was formed by an investor group that includes the former Founder and director of our company, James Kang, who is also the brother of John Kang, Chairman of the Board of our company. We cannot guarantee that adequate funds will be available when needed, and if we do not receive sufficient capital, we may be required to alter or reduce the scope of our operations. If we raise additional funds by issuing equity securities, existing stockholders may be diluted. In addition, if shares of our common stock or securities convertible into or exercisable for our common stock are issued in consideration of such funds at an effective per share price lower than the conversion and exercise prices of our currently outstanding convertible notes and warrants, then anti-dilution provisions in such convertible notes and warrants would be triggered, thus possibly causing even greater dilution o our then-existing stockholders if the notes are converted or the warrants are exercised. See RISK FACTORS Our convertible notes and warrants contain anti-dilution provisions that, if triggered, could cause substantial dilution to our then-existing stockholders.

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

We have marketed and sold industrial coatings to distributors in the coatings industry since 1987. Prior to the third quarter of 2002, our experience selling products made from bulk amorphous alloys has been limited to our discontinued retail golf business, which had a different marketing strategy than the one we are currently employing. Therefore, we have a relatively limited

6

---

history of producing bulk amorphous alloy components and products on a mass-production basis. Furthermore, our ability to produce our products in desired quantities and at commercially reasonable prices is uncertain and is dependent on a variety of factors that are outside of our control, including the nature and design of the component, the customer s specifications, and required delivery timelines.

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

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

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

Our business is based upon the commercialization of a new and unique materials technology. Our ability to increase our revenues will depend on our ability to successfully maintain and establish relationships with customers who are willing to incorporate our proprietary alloys and technology into their finished products. However, we believe that the size of our company and the newness of our technology and manufacturing process may continue to make it challenging to maintain and establish such relationships. In addition, we rely and will continue to rely to a large extent on the manufacturing, research, and development capabilities, as well as the marketing and distribution capabilities, of our customers in order to commercialize our products. Our future growth and success will depend in large part on our ability to enter into these relationships and the subsequent success of these relationships. If our products are selected for use in a customer s products, we still may not realize significant revenue from that customer if that customer s products are not commercially successful.

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

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

- identify a potential customer and introduce the customer to Liquidmetal alloys;
- work with the customer to select and design the parts to be fabricated from Liquidmetal alloys;
- make the molds and tooling to be used to produce the selected part;
- make prototypes and samples for customer testing;
- work with our customers to test and analyze prototypes and samples; and
- with respect to some types of products, such as medical devices, to obtain regulatory approval.

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

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

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

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

For the near future, we expect that a significant portion of our revenue will be concentrated in a limited number of customers. For example, for the three months ended March 31, 2007, revenues from one customer, Flextronics Manufacturing LTD, represented approximately 17% of total revenues from continuing operations, for the year ended December 31, 2006, revenues from one customer, Flextronics Manufacturing LTD, represented approximately 13% of total revenues from continuing operations, for the year ended December 31, 2005, revenues from one customer, Samsung, represented approximately 10% of total revenue from continuing operations, and for the year ended December 31, 2004, revenue from two customers represented approximately 62% of total revenue from continuing operations. Revenues from direct suppliers to SanDisk were approximately 18% of total revenues from continuing operations fro the three months ended March 31, 2007, and 22% of total revenues for the year ended December 31, 2006. Revenues from direct suppliers to Samsung represented approximately 0% of total revenues from continuing operations for the three months ended March 31, 2007 and 15%, 14% and 62% of total revenues from continuing operations, for the year ended December 31, 2006, 2005 and 2004, respectively. Also, revenues from defense related contracts with the United States of America represented 9% for the three months ended March 31, 2007 and 7%, 9%, and 10% for the year ended December 31, 2006, 2005, and 2004, respectively, and Growell Metal represented 0% of revenue from continuing operations for the three months ended March 31, 2007 and 0%, 0%, 12%, of revenue from continuing operations for the year ended December 31, 2006, 2005, and 2004. A reduction, delay, or cancellation of orders from one or more of these customers or the loss of one or more customer relationships could significantly reduce our revenue. Unless we establish long-term sales arrangements with these customers, they will have the ability to reduce or discontinue their purchases of our products on short notice.

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

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

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

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

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

The future growth and success of our bulk amorphous alloy business will depend in part on our ability to establish and retain a technological advantage over other materials for our targeted applications. For many of our targeted applications, we will compete with manufacturers of similar products that use different materials. These different materials may include plastics, titanium alloys, or stainless steel, among others. For example, we have targeted the cellular phone component market as an application for bulk Liquidmetal alloys. In this market, we believe we will compete with other manufacturers of cellular phone components who use plastics or metal to construct their components. These other manufacturers may be able to manufacture their cellular phone components, particularly those made from plastics, at significantly less cost than our alloys. In other markets, we will compete directly with suppliers of the incumbent material. In addition, in each of our targeted markets, our success will depend in part on the ability of our customers to compete successfully in their respective markets. Thus, even if we are successful in replacing an incumbent material in a finished product, we will remain subject to the risk that our customer will not compete successfully in its own market.

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

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

Future advances in materials science could render Liquidmetal alloys obsolete.

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

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

Our business is based upon the commercialization of a new and unique materials technology. Our future growth and success will depend in part on our ability to retain key members of our management and scientific staff, who are familiar with this technology and the potential applications and markets for it. For example, as a result of their experience and knowledge of our alloy technology, we believe that our future growth and success will depend in large part on the efforts of Larry Buffington, our President and Chief Executive Officer, and Dr. Atakan Peker, our Vice President of Technology. We do not have key man or similar insurance on any of these individuals. If we lose their services or the services of other key personnel, our financial results or business prospects may be harmed. Additionally, our future growth and success will depend in part on our ability to attract, train, and retain scientific engineering, manufacturing, sales, marketing, and management personnel. We cannot be certain that we will be able to attract and retain the personnel necessary to manage our operations effectively. Competition for experienced executives and scientists from numerous companies and academic and other research institutions may limit our ability to hire or retain personnel on acceptable terms. In addition, many of the companies with which we compete for experienced personnel have greater financial and other resources than we do. Moreover, the employment of non-citizens may be restricted by applicable immigration laws.

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

As a part of our business strategy, we intend to pursue strategic partnering transactions that provide access to new technologies, products, markets, and manufacturing capabilities. These transactions could include licensing agreements, joint ventures, or even business combinations. We believe that these transactions will be particularly important to our future growth and success due to the size and resources of our company and the newness of our technology. For example, we may determine that we may need to license our technology to a larger manufacturer in order to penetrate a particular market. In addition, we may pursue transactions that will give us access to new technologies that are useful in connection with the composition, processing, or application of Liquidmetal alloys. We may not be able to successfully identify any potential strategic partnerships. Even if we do identify one or more potentially beneficial strategic partnering, we may not be able to consummate these transactions on favorable terms or obtain the benefits we anticipate from such a transaction.

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

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

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

We expect that we will continue to manufacture a substantial portion of our initial bulk Liquidmetal alloy products in our South Korean facility and derive a material portion of our revenues from customers in South Korea and revenues from products manufactured by our licensing partner in China. For our fiscal years ended December 31, 2006, 2005, and 2004, approximately 12%, 31%, and 54%, of our revenues came from customers located in South Korea, respectively. For the three months ended March 31, 2007 and 2006, approximately 11% and 47% of our revenues came from customers located in South Korea, respectively. As a result, our manufacturing operations and financial results are subject to risks of political instability, including the risk of conflict between North Korea and South Korea and tensions between the United States and North Korea. In addition, we anticipate that the trend of foreign customers accounting for a significant portion of our total revenues may continue. Specifically, we expect to continue to derive a significant amount of revenue from sales to customers located in Asia. A downturn in the economies of Asian countries where our products will be sold, particularly South Korea s economy, could materially harm our business.

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

- staffing and managing our manufacturing facility located in South Korea;
- product or material transportation delays or disruption, including the availability and costs of air and other transportation between our South Korean facility and the United States;
- political and economic instability, including instability involving China and North Korea that may disrupt our operations in South Korea;
- potentially adverse tax consequences, which may reduce the profitability of products manufactured overseas or sold to overseas customers;
- burden of complying with complex foreign laws and treaties, which could limit our ability to conduct our business as contemplated in South Korea; and
- trade protection laws, policies, and measures and other regulatory requirements affecting trade and investment that could adversely affect the profitability of our South Korean Operations, including loss or modification of exemptions for taxes and tariffs.

Moreover, customers may sell finished goods that incorporate our components and products outside of the United States, which exposes us indirectly to additional foreign commerce risks.

A substantial increase in the price or interruption in the supply of raw materials for our alloys could have an adverse effect on our profitability.

Our proprietary alloy compositions are comprised of many elements, all of which are available commodity products. Although we believe that each of these raw materials is currently readily available in sufficient quantities from multiple sources on commercially acceptable terms, if the prices of these materials substantially increases or there is an interruption in the supply of these materials, such increase or interruption could adversely affect our profitability. For example, if the price of one of the elements included in our alloys substantially increases, we may not be able to pass the price increase on to our customers.

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

We expect to conduct business in various foreign currencies and will be exposed to market risk from changes in foreign currency exchange rates and interest rates. Fluctuations in exchange rates between the U.S. dollar and such foreign currencies may have a material adverse effect on our business, results of operations, and financial condition and could specifically result in foreign exchange gains and losses. The impact of future exchange rate fluctuations on our operations cannot be accurately predicted. To the extent that the percentage of our non-U.S. dollar revenue derived from international sales increases in the future, our exposure to risks associated with fluctuations in foreign exchange rates will increase further. Moreover, as a result of operating a manufacturing facility in South Korea, a substantial portion of our costs are and will continue to be denominated in the South Korean won. Adverse changes in the exchange rates of the South Korean won to the U.S. dollar will affect our costs of goods sold and operating margins and could result in exchange losses. The average foreign exchange rates for the years ended December 31, 2006, 2005, and 2004 were 967, 1,028, and 1,151 South Korean Won to the U.S. dollar, respectively. The average foreign exchange rates for the three months ended March 31, 2007 and 2006 were 954 and 993 South Korean Won to the U.S. dollar, respectively. The fluctuations in the exchange rates resulted in foreign currency translation gains of $0.3 million, $0.3 million, and $1.7 million, for the years ended December 31, 2006, 2005, and 2004, respectively, and loss of $0.2 million and a gain of $0.1 million for the three months ended March 31, 2007 and 2006, respectively.

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

We have an exclusive license from the California Institute of Technology, or Caltech, to several patents and patent applications relating to amorphous alloy technology, and we have obtained several of our own patents. Our success depends in part on our ability to obtain and maintain patent and other proprietary right protection for our technologies and products in the United States and other countries. If we are unable to obtain or maintain these protections, we may not be able to prevent third parties from using our proprietary rights. Specifically, we must:

- protect and enforce our owned and licensed patents and intellectual property;
- exploit our patented technology (owned and licensed); and
- operate our business without infringing on the intellectual property rights of third parties.

Our licensed technology comprises several issued United States patents covering the composition and method of manufacturing of the family of Liquidmetal alloys. We also hold several United States and corresponding foreign patents covering the manufacturing processes of Liquidmetal alloys and their use. The patents relating to our coatings have various expiration dates until 2022, and those relating to our bulk amorphous alloys have expiration dates between 2013 and 2025. Patents covering the sale of our ArmacoreTM coatings material expired during 2005. We continue to hold other coatings related patents; however, if we are unable to protect our proprietary rights prior to the expiration of these patents, we may lose the advantage we have established as being the first to market bulk amorphous alloy products. In addition, the laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and we may encounter significant problems and costs in protecting our proprietary rights in these foreign countries.

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

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

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

- stop or delay using our technology;
- stop or delay our customers from selling, manufacturing or using products that incorporate the challenged intellectual property;
- pay damages; or
- enter into licensing or royalty agreements that may be unavailable on acceptable terms.

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

As of March 31, 2007, our long-term debt was $29.8 million net of debt discount, including the current portion of such debt. Our long-term debt (including the current portion) includes the following:

- $1.2 million in principal outstanding under our Korean subsidiary s loan from Kookmin Bank of South Korea;
- $2.1 million in principal outstanding under the 6% Senior Secured Notes due July 2007 (the July 2007 Notes) issued in our August 19, 2004 private exchange;
- $7.2 million in principal outstanding under the 7% Senior Secured Convertible Notes due August 2007 (the August 2007 Notes) issued in our August 2, 2005 private placement;
- $16.3 million in principal outstanding under the 8% Convertible Subordinated Notes due January 2010 (the January 2010 Notes) issued in our January 3, 2007 private placement, as amended; and
- $3.0 million in principal outstanding under the 8% Unsecured Subordinated Notes issued in May 2006, September 2006, and December 2006 private placements.
- As of March 31, 2007, our short-term debt was $1.5 million. Our short-term debt included the following:
- $1.5 million in outstanding advances received under a factoring, loan, and security agreement executed in April 2005, as amended, with a financing company.

Under our loan from Kookmin Bank, we are obligated to make equal monthly payments of principal and interest of $0.11 million each through the period ending in February 2008. Under our July 2007 Notes, August 2007 Notes, and January 2010 Notes we are required to make cash interest payments to the noteholders of $0.51 million per quarter until such notes are converted or paid. Unless such notes are converted, the $2.1 million in aggregate principal amount under our July 2007 Notes will become due in July 2007, provided that the holders of such notes may demand payment thereunder at any time after July 2006. The $7.2 million in aggregate principal amount under our August 2007 Notes will become due in August 2007, the $3.0 million in aggregate principal amount under the 8% Unsecured Subordinated Notes will become due in August 2007, and $16.3 million in aggregate principal amount under our January 2010 Notes will become due beginning July 31, 2008 through January 3, 2010.

12

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

- a significant portion of our cash flow from operations is likely to be dedicated to the payment of the principal of and interest on our indebtedness;
- we may be unable to refinance our indebtedness on terms acceptable to us or at all;
- our cash flow may be insufficient to meet our required principal and interest payments; and
- we may be unable to obtain additional loans as a result of covenants and agreements with existing debt holders.

In addition, our convertible notes and related documents contain restrictive covenants pursuant to which we generally may not (i) incur any indebtedness that would be senior to, or on the same rank as, the convertible notes with respect to payment or security, (ii) grant any liens or security interests in any of our assets which serve as collateral for the convertible notes (which collateral consists of substantially all of our assets), (iii) with certain exceptions, sell any of the assets that constitute collateral for the notes, (iv) become a guarantor for a third-party s obligation (other than guarantees in the ordinary course of business not in excess of $500,000 in the aggregate), (v) acquire any shares or securities of any other person or entity in excess of an aggregate of $1.0 million over any rolling 12-month period, (vi) purchase or otherwise acquire any assets in excess of an aggregate of $3.0 million over any rolling 12-month period, (vii) engage in any transaction resulting in the issuance to any person of more than 40% of the equity of our company, or (viii) engage in any merger or sale of all or substantially all of our business assets. These covenants may curtail our ability to raise capital in the future or otherwise restrict our ability to enter into a transaction that we believe would be in the best interest of our stockholders.

One of the investors in our January 2007 private placement has demanded the redemption of its note issued in the private placement.

The January 2010 Notes issued in our January 2007 private placement were issued pursuant to a Securities Purchase Agreement, dated January 3, 2007, between our company and the purchasers of the January 2010 Notes (the January Purchase Agreement). Under the terms of the original January Purchase Agreement, we agreed to repay or otherwise satisfy, within 5 days after the closing of the private placement, approximately $15.5 million of our outstanding debt under previously issued promissory notes, including the August 2007 Notes (the Debt Satisfaction Covenant). We originally agreed to this covenant based on assurances that a substantial number of holders of previously issued notes would elect to convert such notes at a reduced conversion price following the January 2007 private placement under a note conversion agreement proposed by us, but most of such holders ultimately elected not to proceed with such conversion. Accordingly, in an effort to preserve funds, we have not yet repaid the indebtedness as required by the original January Purchase Agreement, and in April 2007, we entered into an amendment to the January Purchase Agreement providing that we will have until October 1, 2007 (or such earlier date on which the indebtedness to be repaid is due) to comply with the Debt Satisfaction Covenant.

On March 22, 2007, one of the purchasers of the January 2010 Notes (holding January 2010 Notes in the aggregate amount of $2.0 million) sent us an event of default notice (Event of Default Notice) indicating that we had defaulted under the January Purchase Agreement (and therefore under the January 2010 Note) by failing to comply with the Debt Satisfaction Covenant. This holder did not execute the April 2007 amendment to the January Purchase Agreement, although that amendment was approved by a majority of the note holders. In general, upon a breach of the January 2010 Notes or January Purchase Agreement, a holder of the January 2010 Notes may require us to redeem the January 2010 Notes at a price equal to the greater of (i) the conversion amount to be redeemed and (ii) the product of (A) the conversion rate with respect to such conversion amount in effect at such time as the purchaser of the January 2010 Note delivers an Event of Default Redemption Notice (as defined below) and (B) the closing sale price of our common stock on the date immediately preceding such event of default. Under the terms of the January 2010 Notes and January Purchase Agreement, we have ten (10) business days after the receipt of an Event of Default Notice to cure a default. On April 6, 2007, the holder which sent the Event of Default Notice further sent us an event of default redemption notice (Event of Default Redemption Notice). The Event of Default Redemption Notice states that the holder has elected to require us to redeem its January 2010 Note for a price equal to $2,000,000 (the amount of the January 2010 Note) plus accrued and unpaid interest. On April 16, 2007, we were served with a complaint filed by the holder in the Federal District Court in Minnesota to collect this amount. We have answered and denied that any amount is currently owed to the holder, because of the April 2007 amendment to the January Purchase Agreement. The holder has also moved for summary judgment and a hearing on that motion is scheduled for August 30, 2007. We are currently working to resolve this matter.

13

Also, because we repaid $1.8 million in principal and interest in January and February 2007 under certain subordinated bridge notes without first repaying the August 2007 Notes and July 2007 Notes, we may also be deemed to be in breach of the August 2007 Notes and July 2007 Notes, which case they would also have the right to accelerate such notes and foreclose on their security interest if the breach is not cured within thirty days of notice of default. The August 2007 Notes and July 2007 Notes are secured by substantially all of the assets of our company. If we fail to pay such notes, either at maturity or upon acceleration, then the noteholders may elect to foreclose upon the assets securing the notes.

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

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and new SEC regulations, are creating uncertainty for public companies. As a result of these new rules and the size and limited resources of our company, we will incur additional costs associated with our public company reporting requirements, and we may not be able to comply with some of these new rules. For example, we were not able to comply with Section 404 of the Sarbanes-Oxley Act of 2002 for our 2005 and 2004 fiscal years. In addition, these new rules could make it more difficult or more costly for us to obtain certain types of insurance, including director and officer liability insurance, and this could make it difficult for us to attract and retain qualified persons to serve on our board of directors.

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

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

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

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

In addition, the processing of beryllium, a minor constituent element of some of our alloys, can result in the release of beryllium into the workplace and the environment and in the creation of beryllium oxide as a by-product. Beryllium is classified as a hazardous air pollutant, a toxic substance, a hazardous substance, and a probable human carcinogen under

environmental, safety, and health laws, and various acute and chronic health effects may result from exposure to beryllium. We are required to comply with certain regulatory requirements and to obtain a permit from the U.S. Environmental Protection Agency or other government agencies to process beryllium. Our failure to comply with present or future governmental regulations related to the processing of beryllium could result in suspension of manufacturing operations and substantial fines or criminal penalties.

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

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

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

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

During the first five months in 2007, the highest bid price for our common stock was $1.55 per share, while the lowest bid price during that period was $0.70 per share. The trading price of our common stock could continue to fluctuate widely due to:

- quarter-to-quarter variations in results of operations;
- loss of a major customer;
- announcements of technological innovations by us or our potential competitors;
- changes in, or our failure to meet, the expectations of securities analysts;
- new products offered by us or our competitors;
- announcements of strategic relationships or strategic partnerships; or
- other events or factors that may be beyond our control.

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

Our convertible notes and warrants contain anti-dilution provisions that, if triggered, could cause substantial dilution to our then-existing stockholders.

The convertible notes and warrants issued in our January 2007 private placement contain full-ratchet anti-dilution rights. As a result of these anti-dilution rights, under our January 2010 Notes, if we issue or grant in the future any rights to purchase any of our common stock, or other security convertible into our common stock, for an effective per share price less than the conversion price then in effect, the conversion price of all unconverted January 2010 Notes will be decreased to equal such lower price. With regard to the warrants issued in connection with the January 2010 Notes, if we, in the future, issue or grant any rights to purchase any of our common stock, or other security convertible into our common stock, for a per share price less than

the conversion price of the January 2010 Notes then in effect, the exercise price of the warrants will be reduced to equal such lower price and the number of shares of our common stock for which the warrants may be exercised will be increased so that the total aggregate exercise price remains constant. The foregoing adjustments to the conversion price of the notes and the exercise price of the warrants will not apply to certain exempt issuances, including issuances pursuant to employee stock option plans and strategic transactions

In addition to the above-described full-ratchet anti-dilution rights, certain other notes and warrants previously issued by us contain weighted-average anti-dilution provisions. As of December 31, 2006, we had outstanding $2.1 million in aggregate principal amount of 6% Senior Convertible Notes Due July 2007 with a conversion price of $1.00 per share, $9.9 million in aggregate principal amount of 7% Senior Convertible Notes Due August 2007 with a conversion price of $2.00 per share, warrants to purchase 973,064 shares at an exercise price of $2.58 per share, and warrants to purchase 3,902,714 shares at an exercise price of $2.00 per share, each of which notes and warrants contain weighted-average anti-dilution provisions. Under these provisions, if we issue shares in the future for consideration below the conversion or exercise prices then in effect, then (with certain exceptions, including the issuance of stock options) the conversion price for our convertible notes would automatically be reduced (allowing the holders of the notes to receive additional shares of common stock upon conversion) and the exercise price of the warrants would automatically be reduced (with a corresponding increase in the number of shares issuable pursuant to such warrants). To illustrate the impact of these weighted-average anti-dilution provisions, because of the issuance of the January 2010 Notes in January 2007 and the reduction of the conversion price of certain previously issued convertible notes in February 2007, the above-described warrants outstanding as of December 31, 2006 have been adjusted to represent warrants to purchase 1,178,651 shares at an exercise price of $2.13 per share, warrants to purchase 4,317,409 shares at an exercise price of $1.75 per share, and warrants to purchase 125,000 shares at an exercise price of $2.00 per share as of April 4, 2007. Thus, an aggregate of 745,282 additional shares of our common stock have become issuable pursuant to such previously granted warrants subsequent to December 31, 2006 as a result of the operation of these weighted-average anti-dilution provisions. It is also possible that a future triggering of the full-ratchet anti-dilution rights in our January 2010 Notes could result in a corresponding triggering of the above-described weighted-average anti-dilution provisions in the other notes and warrants.

If our available funds and cash generated from operations are insufficient to satisfy our liquidity requirements in the future, then we may need to raise substantial additional funds in the future to support our working capital requirements and for other purposes. If shares of our common stock or securities convertible into or exercisable for our common stock are issued in consideration of such funds at an effective per share price lower than the conversion and exercise prices of our convertible notes and warrants, then these anti-dilution provisions would be triggered, thus possibly causing substantial dilution to our then-existing stockholders if the notes are converted or the warrants are exercised. Further, subsequent sales of the shares in the public market could depress the market price of our stock by creating an excess in supply of shares for sale.

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

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

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

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

- authorize our board of directors, without stockholder approval, to issue up to 10,000,000 shares of blank check preferred stock that could be issued by our board of directors to increase the number of outstanding shares and prevent a takeover attempt;
- limit stockholders ability to call a special meeting of our stockholders;
- provide for a classified board of directors; and
- establish advance notice requirements to nominate directors for election to our board of directors or to propose matters that can be acted on by stockholders at stockholder meetings.

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

An ongoing investigation by the Department of Justice could have a material adverse impact on our company.

In August 2006, we received a federal grand jury subpoena for the production of documents related to the period from January 1, 1999 though the present. The documents being sought include accounting records, documents relating to our relationship with Growell Metal of Korea, and documents and records relating to transactions in company stock by officers and directors. The subpoena was issued in connection with a grand jury investigation being conducted by the U.S. Department of Justice, Criminal Division, in the Middle District of Florida concerning alleged accounting improprieties involving our company, among other things. We have been, and intend to continue to be, fully cooperative with the authorities in connection with the Department of Justice s subpoena and investigation. However, in the event that current or former members of our senior management were to be implicated in any wrongdoing, it could have a material adverse impact on our capital resources and business focus.

FORWARD-LOOKING STATEMENTS

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

- Our history of operating losses and uncertainty surrounding our ability to achieve or sustain profitability;
- Our limited history of developing, manufacturing, 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.

DESCRIPTION OF PRIVATE PLACEMENT AND CONVERTIBLE NOTES

Description of Private Placement

On January 3, 2007, we completed a private placement of $16.3 million in principal amount of Convertible Subordinated Notes due January 2010 (the January 2010 Notes). This prospectus covers the resale of the shares of our common stock issuable upon the conversion of the January 2010 Notes and upon the exercise of the warrants issued in the private placement.

The January 2010 Notes were issued pursuant to a Securities Purchase Agreement dated January 3, 2007 among our company and the purchasers of the January 2010 Notes, as amended by Amendment No. 1 on April 23, 2007 (the Securities Purchase Agreement). The principal purposes of the private placement were to raise additional funding for working capital and to provide for the repayment of certain indebtedness of our company. The January 2010 Notes were issued for aggregate cash in the amount of $12.9 million (before expenses and placement agent fees) and in payment of a total of $3.4 million in principal and accrued but unpaid interest under our previously issued 7% Senior Secured Convertible Notes Due August 2007 (the 7% Senior Notes) and our 8% Unsecured Subordinated Notes (the Subordinated Notes).

The January 2010 Notes (as amended) are convertible at any time at the option of the holder into shares of our common stock at a conversion price of $1.10 per share, subject to adjustment for stock splits, stock dividends, and the like. In the event that we issue or grant, in the future, any rights to purchase any of our common stock, or other security convertible into our common stock, for an effective per share price less than the conversion price then in effect, the conversion price of all unconverted January 2010 Notes will be decreased to equal such lower price, provided that such adjustment will not apply to certain exempt issuances, including stock issuances pursuant to employee stock option plans and strategic transactions. In the event that the average of the daily volume weighted average price of the shares of our common stock for any 20 consecutive trading days exceeds 250% of the conversion price, we will have the right, but not the obligation, to require the holders of the January 2010 Notes to convert the Notes into our common stock at the conversion price then in effect. Such a mandatory conversion is subject to specified conditions, including the existence of an effective registration statement covering the resale of the shares into which the January 2010 Notes are converted and certain minimum trading volumes in the stock to be issued.

Prior to maturity, the January 2010 Notes will bear interest at 8% per annum with interest payable quarterly in arrears in cash, or, at our option, in the form of additional January 2010 Notes (in which case the interest rate will be 10% per annum). Our ability to pay interest with additional January 2010 Notes is subject to specified conditions, including the existence of an effective registration statement covering the resale of the shares issued in payment of interest and certain minimum trading volumes in the stock to be issued. From and after an event of default under the January 2010 Notes and for so long as the event of default is continuing, the January 2010 Notes will bear default interest at a rate of 12% per annum (or 15% per annum if we elect to pay interest with additional January 2010 Notes).

Beginning on July 31, 2008, and at the end of each month thereafter, we will be required to redeem 1/36th of the principal amount of the January 2010 Notes in cash or, at our election, with shares of our common stock. Our ability to pay the redemption amounts with shares of our common stock will be subject to specified conditions, including the existence of an effective registration statement covering the resale of the shares issued in payment of the redemption amount and certain minimum trading volumes in the stock to be issued. Any unconverted January 2010 Notes will become due on January 3, 2010, although we will have the right at any time after 18 months following the issuance of the January 2010 Notes to redeem the January 2010 Notes in whole or in part for a cash redemption price of 105% of the portion of the principal amount being redeemed plus all accrued and unpaid interest thereon. The January 2010 Notes are unsecured and are subordinate to our 6% Senior Convertible Notes Due July 2007 (the 6% Senior Notes) and to certain secured financing from commercial lenders incurred by our company in the future.

As a part of the private placement, we issued warrants to the purchasers of the Notes giving them the right to purchase up to an aggregate of 7.4 million shares of our common stock at an amended exercise price of $1.55 per share (the Warrants). The exercise price of the Warrants is subject to adjustment for stock splits, stock dividends, and the like. In the event that we, in the future, issue or grant any rights to purchase any of our common stock, or other security convertible into our common stock, for a per share price less than the conversion price of the Notes then in effect, the exercise price of the Warrant will be reduced to equal such lower price and the number of shares of our common stock for which the Warrant may be exercised will be increased so that the total aggregate exercise price remains constant. The foregoing adjustment to the exercise price will not apply to certain exempt

issuances, including issuances pursuant to employee stock option plans and strategic transactions. In connection with the private placement, we also issued to the placement agent for the transaction warrants to purchase an aggregate of 248,710 shares of our common stock at an exercise price of $1.55 per share. All of the Warrants (including the warrants granted to the placement agent) are immediately exercisable and will expire on January 3, 2012.

In connection with the private placement, our company and the purchasers of the January 2010 Notes entered into a Registration Rights Agreement under which we were required, on or before 45 days after the closing of the private placement, to file a registration statement with the SEC covering the resale of the shares of our common stock issuable pursuant to the January 2010 Notes and Warrants and to use our best efforts to have the registration declared effective at the earliest date (but in no event later than 90 days after filing if there is no SEC review of the registration statement, or 120 days if there is an SEC review). We will be subject to certain monetary penalties, as set forth in the Registration Rights Agreement, up to a maximum amount of 18% of the aggregate amount of January 2010 Notes sold in the private placement if the registration statement is not filed or does not become effective on a timely basis. The monetary penalties will accrue at the rate of 1% per month of the then-outstanding principal amount of the January 2010 Notes. In the event that we are unable to include in the registration statement all shares of our common stock issuable pursuant to the January 2010 Notes and Warrants, then we will be required to file up to two additional registration statements to register the resale of any shares excluded from the originally filed registration statement and to pay monetary penalties on the January 2010 Notes convertible into the excluded shares until the resale of such excluded shares is covered by an effective registration statement or until such shares can be sold under SEC Rule 144. As of May 31, 2007, an aggregate of $127,995 in monetary penalties under the Registration Rights Agreement had already been paid to investors as a result of the late filing of the required registration statement, while an additional $263,193 in such penalties were accrued but unpaid. The registration statement of which this prospectus is a part was filed pursuant to this Registration Rights Agreement.

Dollar Value of Underlying Securities and Potential Profits on Conversion

The following table sets forth the potential profit to be realized upon conversion of the January 2010 Notes based on the conversion price at January 3, 2007 and the closing price of our common stock on January 3, 2007 (the date the Notes were issued). Although the original conversion price of the January 2010 Notes exceeded the market price of our common stock on that date, the holders of our nonconvertible subordinated notes issued in 2006 (the Bridge Notes) were, under the terms of the Bridge Notes, entitled to a discount on the purchase of the January 2010 Notes.

Potential Profit from Conversion of Convertible Notes

Market price per share at January 3, 2007	$	1.54
Conversion Price per share at January 3, 2007	$	1.55
Total shares underlying January 2010 Notes based on conversion price	10,515,818	
Aggregate market value of underlying shares based on market price as of January 3, 2007	$	16,194,360
Aggregate conversion price of underlying shares	$	16,299,518
Discount to holders of Bridge Notes	$	73,000
Aggregate purchase price for Notes after discount for Bridge Note holders	$	16,226,518

Pursuant to the amendment of the January 2010 Notes on April 23, 2007, the conversion price of the January 2010 Notes was reduced to $1.10, which is a premium over the $0.89 per share closing price of our common on the date of such amendment. The exercise price of the Warrants issued in the private placement was initially $1.93 per share prior to the April 23 amendment, and therefore the Warrants were granted at a premium (not a discount) to the market value of our common stock on the date of the closing of the private placement. Pursuant to the April 23 amendment, the exercise price of the Warrants was decreased to $1.55, which is a premium over the $0.89 per share closing price of our common on the date of the amendment.

Payments to Selling Stockholders and Affiliates

In connection with the January 2010 Notes and the related private placement, we are or may be required to make the following payments to the selling stockholders.

Payee	Maximum Interest Payments(1)	Maximum Redemption Premiums(2)	Maximum Registration Penalties(3)	Total Maximum Payments During First Year(4)
Fort Mason Master, LP	595,145	140,865	507,114	292,999
Fort Mason Partners, LP	38,595	9,135	32,886	19,001
The Tail Wind Fund Ltd.	264,058	62,500	225,000	130,000
Solomon Strategic Holdings, Inc.	52,812	12,500	45,000	26,000
Whitebox Intermarket Partners, LP	422,493	100,000	360,000	208,000
Castlerigg Master Investments Ltd.	422,493	100,000	360,000	208,000
Diamond Opportunity Fund, LLC	73,936	17,500	63,000	36,400
Rockmore Investment Master Fund, Ltd.	211,247	50,000	180,000	104,000
Abdi Mahamedi	105,623	25,000	90,000	52,000
BridgePointe Master Fund Ltd.	422,493	100,000	360,000	208,000
Iroquois Master Fund Ltd.	105,623	25,000	90,000	52,000
Kenneth Lisiak	35,460	8,393	30,215	17,458
Vestal Venture Capital	77,514	18,347	66,048	38,161
Charles (Hyun Ju) Kim	47,701	11,290	40,645	23,484
Chunhyong Myong	35,776	8,468	30,484	17,613
Rodd Friedman	31,449	7,444	26,797	15,483
Myron Neugeboren	6,106	1,445	5,203	3,006
Ricardo Salas	69,921	16,550	59,578	34,423
Chang Ki Cho	92,140	21,809	78,511	45,362
Eric Brachfeld	11,518	2,726	9,814	5,670
Ed Neugeboren	4,245	1,005	3,617	2,090
Wynnefield Partners Small Cap Value L.P.	88,724	21,000	75,600	43,680
Wynnefield Partners Small Cap Value LP I	116,186	27,500	99,000	57,200
Wynnefield Small Cap Value Offshore	111,961	26,500	95,400	55,120

(1) Represents maximum amount of interest payable by us to the selling stockholders under the January 2010 Notes assuming the January 2010 Notes remain outstanding until the maturity date and assuming that interest is paid in cash.

(2) Represents the cash amount that would be payable by us if we exercised the optional redemption right described above, but does not include the warrants that would be issuable upon the exercise of such right.

(3) Represents the maximum monetary penalties that would be payable if we failed to timely file or obtain a declaration of effectiveness with respect to the registration statement required under the above-described Registration Rights Agreement.

(4) Represents the maximum amounts payable in cash during the first year of the January 2010 Notes under the other columns in this table assuming that (i) the optional redemption right is not exercised during the first year and (ii) monetary penalties accrue under the Registration Rights Agreement by reason of the late filing and effectiveness registration statement required by the Registration Rights Agreement.

In addition to the foregoing, we reimbursed the placement agent for the January 2007 private placement an amount equal to $37,500 for legal fees incurred by them in connection with the private placement.

Net Proceeds from Private Placement of January 2010 Notes

The following table sets forth the gross cash proceeds received from the private placement of the January 2010 Notes and calculates the net proceeds from the private placement of the January 2010 Notes after deduction of the anticipated payments pursuant to the Notes and the other private placement documents. The net proceeds do not include the payment of any contingent payments, such as liquidated damages or repayment premiums in the case of default or a change in control. The net proceeds assumes that all interest and principal will be paid in cash notwithstanding that we may pay interest and principal in additional January 2010 Notes or shares of our common stock under specified circumstances, as described above. The interest amount reflected below assumes that all payments are made when due without any event of default, and the table assumes that none of the January 2010 Notes are converted prior to maturity. Based on the foregoing assumptions, the net proceeds represent approximately 63% of the gross proceeds.

Gross Cash Proceeds	$12,580,000
Approximate Aggregate Interest Payments	$3,443,219
Approximate Transaction Costs (including Placement Agent Fees)	$1,240,876
Net Proceeds	$7,895,905

23

Comparison of Issuer Proceeds to Potential Investor Profit

We plan to use the proceeds from the sale of the January 2010 Notes for working capital and to provide for the repayment of certain indebtedness of our company. The following table summarizes the potential proceeds we will receive pursuant to the Securities Purchase Agreement, January 2010 Notes, and Warrants. For purposes of this table, we have assumed that the selling stockholders will exercise all of the Warrants on a cash basis, although there is no assurance that any of the Warrants will actually be exercised. We have also assumed that the January 2010 Notes will be held by the selling stockholders through the maturity date of the January 2010 Notes.

Total Gross Proceeds Payable to Company in January 2007 Private Placement(1)	$	24,719,266	
All Payments that have been made or may be required to be made by Company until Maturity(2)	$	3,834,407	
Net Proceeds to Company Assuming Maximum Payments made by Company(3)	$	20,884,859	
Total Possible Profit to the Selling Stockholders(4)	$	0	
Percentage (%) of Payments and Profit over Net Proceeds(5)	18		%
Percentage (%) of Payments and Profit over Net Proceeds per year of Term(6)	6		%

---

(1) Includes gross cash proceeds payable to our company on the sale of the January 2010 Notes in the amount of $12,850,000 and assumes full exercise of the Warrants (including Warrants granted to placement agents) to yield an aggregate exercise price of $11,869,266. However, there is no assurance that any Warrants will actually be exercised.

(2) Total possible payments (excluding repayment of principal) payable by us to the selling stockholders or their affiliates assuming the January 2010 Notes remain outstanding until the maturity date and that interest is paid in cash. Assumes that liquidated damages under the Registration Rights Agreement are incurred only through April 30, 2007 and that no redemption premium on the January 2010 Notes will be applicable.

(3) Total net proceeds to us calculated by subtracting the result in footnote (2) from the results in footnote (1) (excluding transaction costs and placement agent fees).

(4) Total possible profit to the selling stockholders based on the aggregate discount to market price of the shares underlying the January 2010 Notes and Warrants as indicated above in the table entitled Potential Profit from Conversion of Convertible Notes.

(5) Percentage of the total possible payments to the selling stockholders as calculated in footnote (2) plus profit calculated in footnote (4) compared to net proceeds disclosed in footnote (3).

(6) Based on three year term.

Comparison of Registered Shares to Outstanding Shares

The following table compares the number of shares held by persons other than the selling stockholders, affiliates of our company, and affiliates of the selling stockholders with the number of shares registered for resale and sold by such parties in prior transactions as well as in January 2007:

Shares Outstanding Prior to January 2007 Private Placement Held by Persons Other than Selling Stockholders, or Affiliates of Company or Selling Stockholders	33,629,122
Shares Registered for Resale by Selling Stockholders, or Affiliates of Company or Selling Stockholders in Prior Registration Statements	100,500
Shares Registered for Resale by Selling Stockholders, or Affiliates of Company or Selling Stockholders, under Prior Registration Statements that Continue to be Held by Such Persons	0
Shares Sold in Registered Resale Transactions by the Selling Stockholders or Affiliates of the Selling Stockholders	100,500
Shares Registered for Resale on behalf of the Selling Stockholders or Affiliates of the Selling Stockholders in connection with the January 2007 Private Placement	12,032,140

Other Information

We currently intend, and we have a reasonable basis to believe that, we will have the financial ability to make all payments on the January 2010 Notes when they are due.

We have not received any information from the selling stockholders indicating that any selling shareholder has an existing short position our common stock.

With the exception of the following, we have not had any material relationships or arrangements with any of the selling stockholders, their affiliates, or any person with whom any selling shareholder has a contractual relationship regarding the January 2007 private placement (or any predecessors of those persons):

- Kenneth Lisiak, Vestal Venture Capital, Charles (Hyun Ju) Kim, Chunhyong Myong, and Ricardo Salas were investors in our May 2006 private placement and were therefore issued Bridge Notes in that transaction. These investors have exchanged their Bridge Notes for the January 2010 Notes.

- Rodd Friedman, Myron Neugeboren, Ricardo Salas, Chang Ki Cho, Eric Brachfeld, Ed Neugeboren, Wynnefield Partners Small Cap Value L.P., Wynnefield Partners Small Cap Value LP I, and Wynnefield Small Cap Value Offshore were investors in our August 2005 private placement and were therefore issued 7% Senior Secured Convertible Notes due August 2007 in that transaction. These investors have exchanged their 7% Senior Secured Convertible Notes for January 2010 Notes.

- Ricardo Salas was a former President, Chief Executive Officer, and director of our company.

- Chang Ki Cho was appointed as a director of our company in December of 2004.

SELLING STOCKHOLDERS

On behalf of the selling stockholders named in the table below (including their donees, pledgees, transferees or other successors-in-interest who receive any of the shares covered by this prospectus), we are registering, pursuant to the registration statement of which this prospectus is a part, all 12,032,140 shares of our common stock which will become issuable upon:

- the conversion of Convertible Subordinated Notes Due January 2010 (the January 2010 Notes), which notes were issued by us to such selling stockholders in connection with a private placement in January 2007;

- the exercise of outstanding common stock purchase warrants issued by us in our January 2007 private placement and having an exercise price of $1.55 per share; and

- the exercise of outstanding common stock purchase warrants issued by us between May 17, 2006 and December 1, 2006 and having an adjusted exercise price of $2.13 per share.

The selling stockholders are investors that provided financing to us or are those that acted as placement agents in our private placement financings. We are registering the shares to permit the selling stockholders to offer these shares for resale from time to time. The selling stockholders may sell all, some or none of the shares covered by this prospectus. All information with respect to beneficial ownership has been furnished to us by the respective selling stockholders. For more information, see Plan of Distribution. As of May 14, 2007, the January 2010 Notes and the above-described warrants are convertible or exercisable for an aggregate of 23,653,994 shares of our common stock, although we are registering only 12,032,140 of this shares in the registration statement of which this prospectus is a part. The selling stockholders will have the right to determine whether the shares registered on their behalf will be allocated to the conversion of January 2010 Notes, the exercise of warrants, or a combination of the two.

The table below lists the selling stockholders and information regarding their ownership of common stock as of June 1, 2007:

SELLING STOCKHOLDER	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO THIS OFFERING	NUMBER OF SHARES BEING OFFERED HEREBY(1)		SHARES OWNED AFTER OFFERING(1) NUMBER	PERCENTAGE(2)	
Fort Mason Master, LP(3)(5)	2,227,125	1,954,205	(4)	1,887,568	4.06	%
Fort Mason Partners, LP(3)(5)	249,137	126,729	(4)	122,408	*	
The Tail Wind Fund Ltd.(3)(6)	1,704,546	867,056	(4)	837,490	1.84	%
Solomon Strategic Holdings, Inc. (3)(7)	340,910	174,412	(4)	166,498	*	
Whitebox Intermarket Partners, LP(3)(8)	2,227,125	1,387,290	(4)	1,339,983	2.91	%
Castlerigg Master Investments Ltd. (3)(9)	2,227,125	1,387,290	(4)	1,339,983	2.91	%
Diamond Opportunity Fund, LLC (3)(10)	477,273	242,775	(4)	234,498	*	
Rockmore Investment Master Fund, Ltd. (3)(11)	1,363,637	693,645	(4)	669,992	1.48	%
Abdi Mahamedi(3)	2,227,125	346,823	(4)	2,227,125	4.97	%
BridgePointe Master Fund Ltd. (3)(12)	2,227,125	1,387,290	(4)	1,339,983	2.91	%
Iroquois Master Fund Ltd. (3)(13)	681,819	346,823	(4)	334,996	*	

SELLING STOCKHOLDER	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO THIS OFFERING	NUMBER OF SHARES BEING OFFERED HEREBY(1)	SHARES OWNED AFTER OFFERING(1)	
Gryphon Master Fund, L.P. (14)	234,742	119,407	115,335	*
GSSF Master Fund, LP(15)	117,371	59,703	57,668	*
Triage Capital Management L.P. (16)	28,170	14,329	13,841	*
Leon Frenkel	89,203	45,375	43,828	*
Stratford Partners, LP(17)	70,424	35,823	34,601	*
Kenneth Lisiak(3)	269,045	136,855 (4)	132,190	*
Vestal Venture Capital(3)(18)	576,658	293,330 (4)	283,328	*
James Kang	6,164,322	41,793	6,122,529	12.88 %
Kurtis Jang	23,475	11,941	11,534	*
Charles (Hyun Ju) Kim(3) (23)	354,868	180,512 (4)	174,356	*
Chunhyong Myong(3)	266,151	135,384 (4)	130,767	*
Hamilton Investment Partners, LLC(19)	58,686	29,852	28,834	*
Rockport Funding, LLC(20)	23,475	11,941	11,534	*
Jay P. Deahna	23,475	11,941	11,534	*
Indigo Securities, LLC(21)(24)	346,481	176,245	170,236	*
Rodd Friedman(3)	245,546	103,266 (4)	142,280	*
Myron Neugeboren(3)	70,274	20,049 (4)	50,225	*
Ricardo Salas(3)	1,726,425	296,279 (4)	1,430,146	3.17 %
Chang Ki Cho (3)	1,214,192	302,550 (4)	911,642	2.01 %
Eric Brachfeld(3)(23)	118,826	37,819 (4)	81,007	*
Ed Neugeboren(3)(23)	63,120	13,940 (4)	49,180	*
Wynnefield Partners Small Cap Value L.P.(3)(22)	692,729	291,322 (4)	401,407	*
Wynnefield Partners Small Cap Value LP I(3) (22)	907,143	381,504 (4)	525,639	1.16 %
Wynnefield Small Cap Value Offshore(3) (22)	874,158	367,632 (4)	506,526	1.12 %

* Less than 1.0%.

---

(1) Assumes that the stockholders dispose of all the shares of common stock covered by this prospectus and do not acquire or dispose of any additional shares of common stock. The selling stockholders are not representing, however, that any of the shares covered by this prospectus will be offered for sale, and the selling stockholders reserve the right to accept or reject, in whole or in part, any proposed sale of shares.

(2) The percentage of common stock beneficially owned is based on 44,631,768 shares of common stock outstanding on June 1, 2007.

(3) On January 3, 2007, we entered into a registration rights agreement with these selling stockholders. See the section of this prospectus entitled DESCRIPTION OF CAPITAL STOCK Registration Rights. Under the registration rights agreement, we are required to file a resale registration statement for the shares underlying the Convertible Subordinated Notes due January 2010 and the related Common Stock Purchase Warrants to enable the resale of such shares by these selling stockholders on a delayed or continuous basis under Rule 415 of the Securities Act.

(4) Represents a good faith estimate of the maximum number of shares of common stock issuable pursuant to the Convertible Subordinated Notes due January 2010 and the related Common Stock Purchase Warrants. These Convertible Subordinated Notes and the related Common Stock Purchase Warrants contain conversion and exercise limitations providing that a selling stockholder may not at any time, unless waived by the selling stockholder upon no less than 61 days prior written notice, convert such notes or exercise such warrants into shares of our common stock if and to the extent that such conversion or exercise would result in the selling stockholder having beneficial ownership (calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended) of more than 4.99% of our common stock. Accordingly, the number of shares of common stock set forth in the table as being registered for a selling shareholder may exceed the number of shares of common stock that the selling shareholder could own beneficially at any given time through its ownership of the convertible debentures and warrants.

(5) The shares listed herein are owned by Fort Mason Master, L.P. and Fort Mason Partners, L.P. (collectively, the Fort Mason Funds). Fort Mason Capital, LLC serves as the general partner of each of the Fort Mason Funds and, in such capacity, exercises sole voting and investment authority with respect to such shares. Mr. Daniel German serves as the sole managing member of Fort Mason Capital, LLC. Fort Mason Capital, LLC and Mr. German each disclaim beneficial ownership of such shares, except to the extent of its or his pecuniary interest therein, if any.

(6) Tail Wind Advisory & Management Ltd., a UK corporation authorized and regulated by the Financial Services Authority of Great Britain (TWAM), is the investment manager for The Tail Wind Fund Ltd., and David Crook is the CEO and controlling shareholder of TWAM. Each of TWAM and David Crook expressly disclaims any equitable or beneficial ownership of the shares being registered hereunder and held by The Tail Wind Fund Ltd.

(7) Andrew P. Mackellar has been authorized by the Board of Directors of Solomon Strategic Holdings, Inc. (SSH) to make voting and disposition decisions with respect to the shares on behalf of SSH. By reason of such delegated authority, Mr. Mackellar may be deemed to share dispositive power over the shares of common stock owned by SSH. Mr. Mackellar expressly disclaims any equitable or beneficial ownership of the shares being registered hereunder and held by SSH, and he does not have any legal right to maintain such delegated authority.

(8) Andrew Redleaf, managing member of the GP, has the power to vote and dispose of the shares held by Whitebox Intermarket Partners, LP.

(9) Mr. Thomas E. Sandell has the power to vote and dispose of the shares held by Castlerigg Master Investments Ltd. (Castlerigg). Thomas Sandell is the controlling person of Sandell Asset Management Corp. (SAMC).

29

Castlerigg International Ltd. (CIL) is the controlling shareholder of Castlerigg International Holdings Limited (Holdings). Holdings is the controlling shareholder of Castlerigg. Each of Holdings and CIL may be deemed to share beneficial ownership of the shares beneficially owned by Castlerigg. SAMC, Mr. Sandell, Holdings and CIL each disclaims beneficial ownership of the securities with respect to which indirect beneficial ownership is described.

(10) Mr. David Hokin, Mr. Rob Rubin, and Mr. Richard Marks in their capacities as Manager and Managing Directors, respectively, of Diamond Opportunity Fund, have the shared power to vote and dispose of the shares. Each of Messrs. Hokin, Rubin and Marks disclaim beneficial ownership of the shares.

(11) Rockmore Capital, LLC (Rockmore Capital) and Rockmore Partners, LLC (Rockmore Partners), each a limited liability company formed under the laws of the State of Delaware, serve as the investment manager and general partner, respectively, to Rockmore Investments (US) LP, a Delaware limited partnership, which invests all of its assets through Rockmore Investment Master Fund Ltd., an exempted company formed under the laws of Bermuda (Rockmore Master Fund). By reason of such relationships, Rockmore Capital and Rockmore Partners may be deemed to share dispositive power over the shares of our common stock owned by Rockmore Master Fund. Rockmore Capital and Rockmore Partners disclaim beneficial ownership of such shares of our common stock. Rockmore Partners has delegated authority to Rockmore Capital regarding the portfolio management decisions with respect to the shares of common stock owned by Rockmore Master Fund and, as of April 4, 2007, Mr. Bruce T. Bernstein and Mr. Brian Daly, as officers of Rockmore Capital, are responsible for the portfolio management decisions of the shares of common stock owned by Rockmore Master Fund. By reason of such authority, Messrs. Bernstein and Daly may be deemed to share dispositive power over the shares of our common stock owned by Rockmore Master Fund. Messrs. Bernstein and Daly disclaim beneficial ownership of such shares of our common stock and neither of such persons has any legal right to maintain such authority. No other person has sole or shared voting or dispositive power with respect to the shares of our common stock as those terms are used for purposes under Regulation 13D-G of the Securities Exchange Act of 1934, as amended. No person or group (as that term is used in Section 13(d) of the Securities Exchange Act of 1934, as amended, or the SEC s Regulation 13D-G) controls Rockmore Master Fund.

(12) Mr. Eric S. Swartz has the power to vote and dispose of the shares held by BridgePointe Master Fund Ltd.

(13) Mr. Joshua Silverman has voting and investment control over the shares held by Iroquois Master Fund Ltd. Mr. Silverman disclaims beneficial ownership of these shares.

(14) Mr. E.B. Lyon, IV has the power to vote and dispose of the shares held by Gryphon Master Fund, L.P.

(15) Mr. Tom C Davis has the power to vote and dispose of the shares held by GSSF Master Fund, LP.

(16) Mr. Leon Frenkel has the power to vote and dispose of the shares held by Triage Capital Management L.P.

(17) Mr. Mark Fain has the power to vote and dispose of the shares held by Stratford Partners, LP.

(18) Mr. Allan R. Lyons has the power to vote and dispose of the shares held by Vestal Venture Capital.

(19) Mr. Doug Hamilton, managing member of Hamilton Investment Partners, LLC, has the power to vote and dispose of the shares held by Hamilton Investment Partners, LLC.

(20) Mr. Richard Trepp, as member of Rockport Funding, LLC, has the power to vote and dispose of the shares held by Rockport Funding, LLC.

(21) Mr. Eric Brachfeld has the power to vote and dispose of the shares held by Indigo Securities, LLC.

(22) Nelson Obus, Managing Member of the selling stockholder, exercises sole voting and investment power over such shares.

(23) These selling stockholders (or their ultimate beneficial owners) have represented to us that they are affiliates of broker-dealers and that they each acquired the notes, warrants, or underlying shares to be resold in the ordinary course of business and that, at the time of acquisition, each had no agreements or understandings, directly or indirectly, with any person to distribute the securities.

(24) These selling stockholders are broker-dealers who acquired their warrants as compensation for serving as placement agents in the private placements in which the notes and warrants were issued.

USE OF PROCEEDS

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

DIVIDEND POLICY

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

MARKET FOR AND PRICE RANGE OF THE COMMON STOCK

Our common stock is currently quoted on the OTC Bulletin Board under the symbol LQMT. On June 28, 2007, the last reported sales price of our common stock was $0.86 per share. As of June 28, 2007, we had 247 record holders of our common stock.

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

2007	High	Low
First Quarter	$ 1.63	$ 0.82

2006	High	Low
Fourth Quarter	$ 1.80	$ 1.42
Third Quarter	$ 2.01	$ 1.31
Second Quarter	$ 2.34	$ 1.31
First Quarter	$ 1.75	$ 0.87

2005	High	Low
Fourth Quarter	$ 1.76	$ 0.64
Third Quarter	$ 2.13	$ 1.52
Second Quarter	$ 2.25	$ 1.28
First Quarter	$ 2.85	$ 1.10

SELECTED FINANCIAL DATA

The following table shows our selected consolidated financial data as of and for the years ended December 31, 2002 through 2006. The selected consolidated financial data as of and for the years ended December 31, 2004, 2005, and 2006 are derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated financial data as of and for the three months ended March 31, 2007 and 2006 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. Such unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles). Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for any future periods or the year ending December 31, 2007. In the opinion of management, all adjustments (consisting of only of normal recurring accruals) considered necessary for a fair presentation have been included. The following information should be read with MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS and our Consolidated Financial Statements and Notes thereto included elsewhere in this prospectus.

These statements should be read in conjunction with restatement footnote 2 in the notes to the fiscal year 2006 consolidated financial statements included in the INDEX TO THE FINANCIAL STATEMENTS of this prospectus and in the fiscal 2003 annual report on Form 10-K filed on November 10, 2004, which reflects the restatements of prior year transactions.

34

	Three Months Ended		Years Ended December 31,				
	2007	2006 (Restated)	2006	2005 (Restated)	2004 (Restated)	2003	2002 (Restated)
	(Unaudited)						
	(In thousands, except per share data)						
Consolidated Statements Of Operation Data:							
Revenue	$ 5,067	$ 6,555	$ 27,669	$ 16,365	$ 17,429	$ 13,658	$ 9,138
Cost of sales	6,441	5,324	22,418	15,129	12,168	18,162	5,656
Gross (loss) profit	(1,374)	1,231	5,251	1,236	5,261	(4,504)	3,482
Operating expenses:							
Selling, general, and administrative expenses	2,532	2,705	9,962	8,534	11,591	17,729	13,099
Research and development expenses	263	203	950	1,120	1,467	8,780	11,825
Impairment of Goodwill						184	
Impairment of long lived assets				4,487		2,684	
Total operating expenses	2,795	2,908	10,912	14,141	13,058	29,377	24,924
Loss before interest, other income, income taxes, minority interest and discontinued operations	(4,169)	(1,677)	(5,661)	(12,905)	(7,797)	(33,881)	(21,442)
Loss from extinguishments of debt	(648)			(1,247)	(2,941)		
Change in value of warrants, gain (loss)	3,692	(1,289)	279	3,985	747		
Change in value of conversion feature, gain (loss)	4,344	(1,783)	(226)	9,118	2,093		
Other income		480	572		302		
Interest expense	(2,763)	(1,782)	(9,509)	(6,021)	(6,577)	(390)	(1,109)
Interest income	61	2	23	17	37	304	506
Gain on sale of marketable securities held for sale						1,178	832
Income (loss) before minority interest and discontinued operations	517	(6,049)	(14,522)	(7,053)	(14,136)	(32,789)	(21,213)
Minority interest in loss of consolidated subsidiary						21	118
Income loss from continuing operations	517	(6,049)	(14,522)	(7,053)	(14,136)	(32,768)	(21,095)
Discontinued Operations:							
(Loss) gain income from discontinued operations, net					(749)	(964)	83
Gain from disposal of discontinued operations, net						127	1,556
Net income (loss)	$ 517	$ (6,049)	$ (14,522)	$ (7,053)	$ (14,885)	$ (33,605)	$ (19,456)
Income (loss) per share from continuing operations	$ 0.01	$ (0.14)	$ (0.33)	$ (0.17)	$ (0.34)	$ (0.79)	$ (0.54)
(Loss) gain per share from discontinued operations	$	$	$	$	$ (0.02)	$ (0.02)	$ 0.04
Net income (loss) per share	$ 0.01	$ (0.14)	$ (0.33)	$ (0.17)	$ (0.36)	$ (0.81)	$ (0.50)
Weighted average shares - basic and diluted	44,925	42,817	43,809	41,833	41,610	41,505	38,714

35

	As of March 31,		As of December 31,			
	2007	**2006**	**2005**	**2004**	**2003**	**2002**
	(Unaudited)		**(Restated)**	**(Restated)**		**(Restated)**
	(In thousands)					
Consolidated Balance Sheet Data:						
Cash and cash equivalents	$ 2,937	$ 144	$ 1,392	$ 742	$ 3,127	$ 25,058
Working capital (deficit)	(16,066)	(23,157)	(10,993)	(14,910)	(698)	25,812
Total assets	25,735	22,244	21,563	28,508	30,852	24,845
Long-term debt, including current portion, net of discount	18,255	14,705	6,776	6,628	4,047	
Shareholders equity (deficiency)	(9,322)	(10,363)	(1,320)	4,191	16,163	50,599

36

SUPPLEMENTARY FINANCIAL INFORMATION

The following information presents our unaudited quarterly operating results for 2007, 2006, and 2005. The data has been prepared by Liquidmetal Technologies, Inc. on a basis consistent with the Consolidated Financial Statements included elsewhere in this prospectus, and includes all adjustments, consisting of normal recurring accruals, that we consider necessary for a fair presentation thereof. These operating results are not necessarily indicative of our future performance.

Consolidated Statements of Operations Data:	**For the Three Months Ended 3/31/07 (In thousands, except per share data) (Unaudited)**		
Revenue	$	5,067	
Cost of sales	6,441		
Gross loss	(1,374		)
Operating expenses			
Selling, general, and administrative	2,532		
Research and development	263		
Total operating expenses	2,795		
Loss from operations	(4,169		)
Loss from exinguishments of debt	(648		)
Change in value of warrants, gain	3,692		
Change in value of conversion feature, gain	4,344		
Interest expense, net	(2,702		)
Income from operation before income taxes	517		
Income taxes			
Net Income	$	517	
Income per share from operations - basic and diluted	0.01		
Weighted average common shares used to compute loss per share from operations - basic and diluted	44,925		

37

Consolidated Statements of Operations Data:	For the Three Months Ended 12/31/06	9/30/06	6/30/06	3/31/06 (Restated)
	(In thousands, except per share data) (Unaudited)			
Revenue	$ 5,984	$ 8,040	7,090	$ 6,555
Cost of sales	5,081	6,449	5,564	5,324
Gross profit	903	1,591	1,526	1,231
Operating expenses				
Selling, general, and administrative	2,599	2,290	2,368	2,705
Research and development	197	269	281	203
Total operating expenses	2,796	2,559	2,649	2,908
Loss from operations	(1,893)	(968)	(1,123)	(1,677)
Change in value of warrants, gain (loss)	1,633	1,361	(1,426)	(1,289)
Change in value of conversion feature, gain (loss)	1,707	1,987	(2,137)	(1,783)
Other income			92	480
Interest expense, net	(2,142)	(2,294)	(3,270)	(1,780)
Income (loss) from operation before income taxes	(695)	86	(7,864)	(6,049)
Income taxes				
Net Income (loss)	$ (695)	$ 86	$ (7,864)	$ (6,049)
Income (loss) per share from operations - basic and diluted	(0.02)	0.00	(0.18)	(0.14)
Weighted average common shares used to compute loss per share from operations - basic and diluted	44,245	44,100	44,075	42,817

Consolidated Statements of Operations Data:	**For the Three Months Ended**			
	12/31/05 (Restated)	**9/30/05 (Restated)**	**6/30/05 (Restated)**	**3/31/05 (Restated)**
	(In thousands, except per share data) (Unaudited)			
Revenue	$ 5,453	$ 4,342	$ 3,727	$ 2,843
Cost of sales	4,576	3,756	3,962	2,835
Gross (loss) profit	877	586	(235)	8
Operating expenses				
Selling, general, and administrative	2,013	2,364	1,567	2,590
Research and development	314	196	213	397
Impairment of long lived assets	260	833	3,394	
Total operating expenses	2,587	3,393	5,174	2,987
Loss from operations	(1,710)	(2,807)	(5,409)	(2,979)
Loss from exinguishments of debt		(1,247)		
Change in value of warrants, gain (loss)	2,840	1,112	(100)	133
Change in value of conversion feature, gain	4,621	2,215	1,167	1,115
Interest expense, net	(1,641)	(1,652)	(1,180)	(1,531)
Income (loss) from operation before income taxes and discontinued operations	4,110	(2,379)	(5,522)	(3,262)
Income taxes				
Net income (loss)	$ 4,110	$ (2,379)	$ (5,522)	$ (3,262)
Income (loss) per share from continuing operations - basic and diluted	$ 0.10	$ (0.06)	$ (0.13)	$ (0.08)
Weighted average common shares used to compute income (loss) per share from continuing operations - basic and diluted	42,180	41,933	41,610	41,610

39

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

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

Overview

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

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

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

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

We maintain certain of our raw material inventories in amounts in excess of our operating cycle of one year due to the nature of our manufacturing process, production lead time, and the recyclability of our raw material. These inventories were classified as long-term inventory as of December 31, 2004. We have determined that its current and projected raw material requirements are not sufficient enough to warrant the use of such raw materials in the foreseeable future. As a result, we determined that the carrying value of raw materials held by our South Korea subsidiary, Liquidmetal Korea, exceeded its fair value in the amount of $2.7 million during the fiscal year 2005.

Idle equipment consists of certain equipment held by us for use in expansion of bulk alloy parts manufacturing. Due to excess manufacturing capacity, we classified the equipment as idle equipment as of December 31, 2005 and 2004. While the equipment may be used internally to meet future capacity requirements, considering our current revenue and foreseeable production requirements, we do not anticipate utilizing this equipment internally in the near future. As a result, we determined that the carrying value of idle equipment held by its subsidiary, Liquidmetal Technologies Korea, exceeded its fair value in the amount of $1.7 million during the second quarter of fiscal year 2005.

Impairment of Long-Lived Assets consists of a write-down of $2.7 million of raw materials considered to be long term inventory and $1.7 million of idle equipment. During 2005, while we may use the excess raw materials beyond one year to fulfill future customer order, we determined that our capacity was not significant enough to warrant holding this inventory as a long term asset. Further, while we have actively marketed the idle equipment for ultimate sale since early 2004, we were unable to sell

this equipment. In addition, while the equipment may be used internally to meet future capacity requirements, considering the revenues during 2005, we did not anticipate utilizing this equipment internally in the near future. As such, during 2005 we have reduced the carrying values of the excess raw material and idle equipment.

Change in Value of Warrants consists of changes to the fair value of warrants outstanding at each period. The warrants have been accounted for as a liability in accordance with Emerging Issues Task Force Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock, with the change in fair values reported in earnings. The fair values are determined using a Black-Scholes pricing model and fluctuations in our stock price have had the greatest impact on the valuation of outstanding warrants.

Change in Value of Conversion Feature consists of changes to the fair value of the embedded conversion feature of our senior convertible notes. The embedded conversion feature has been accounted for as a separate derivative instrument in accordance with SFAS 133 with a change in fair values reported in earnings. The change in fair values is determined using a Black-Scholes pricing model and fluctuations in our stock price have had the greatest impact on the valuation of outstanding conversion features.

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

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

On August 4, 2004, we established a post-processing plant in the city of Weihai in Shandong province of China under Weihai Liquidmetal Company Limited, which is 100 percent owned by Liquidmetal Technologies Korea, to facilitate our bulk alloy manufacturing business. Weihai Liquidmetal is consolidated into Liquidmetal Technologies with all intercompany transactions eliminated. Effective June 1, 2007, we discontinued our operation in Weihai and transferred our manufacturing staff and equipment in Weihai to Grace Metal, a South Koran corporation, as result of a strategy to shift the cost and burden of our manufacturing operations to a third party. Grace Metal was formed by an investor group that includes the former Founder and director of our company, James Kang, who is also the brother of John Kang, Chairman of the Board of our company. As part of this strategy, in June 2007, we changed the name of our South Korean subsidiary to Liquidmetal Technologies Korea Co., Ltd, which was formerly Liquidmetal Korea Co., Ltd. Grace Metal will assume the name of Liquidmetal Korea to conduct business in South Korea.

On June 26, 2006, we entered into a joint venture agreement with SAGA, SpA in Padova, Italy, (SAGA) a specialist precision parts manufacturer. The joint venture is named Liquidmetal SAGA Italy, Srl (LSI). We also entered into an exclusive manufacturing license agreement for the eyewear industry with LSI. Under the joint venture agreement, we have the option to buy ownership interest in LSI, initially, of 19.9% to up to 50%. In December 2006, we have purchased 19.9% interest in the joint venture.

Results of Operations

Comparison of the three months ended March 31, 2007 and 2006

Revenue. Revenue decreased $1.5 million to $5.1 million for the three months ended March 31, 2007 from $6.6 million for the three months ended March 31, 2006. The decrease consisted of a decrease of $1.8 million from the sales and prototyping of parts manufactured from bulk Liquidmetal alloys to consumer electronics customers as a result of decreased demand from electronic casings applications, offset by an increase of $0.3 million from sales of our coatings products as a result of increase in demand from oil drilling applications.

Cost of Sales. Cost of sales increased to $6.4 million, or 127% of revenue, for the three months ended March 31, 2007 from $5.3 million, or 81% of revenue, for the three months ended March 31, 2006. The increase was a result of decreases in

41

---

bulk Liquidmetal alloy business. Significant portions of our manufacturing costs continue to remain fixed. We believe that higher manufacturing volumes and greater mix of higher-margin products in the future will cause the gross profit to improve over time. The cost to manufacture parts from our bulk Liquidmetal alloys is variable and differs based on the unique design of each product. However, the cost of sales for the products sold by the coatings business segment is generally consistent because the Liquidmetal coatings products are produced by third parties and sold wholesale to various industries.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses decreased to $2.5 million, or 50% of revenue, for the three months ended March 31, 2007 from $2.7 million, or 41% of revenue, for the three months ended March 31, 2006. This decrease was primarily a result of decrease in wages and expenses of $0.1 million, and a decrease in travel and advertising expenses $0.1 million.

Research and Development Expenses. Research and development expenses increased to $0.3 million, or 5% of revenue, for the three months ended March 31, 2007 from $0.2 million, or 3% of revenue, for the three months ended March 31, 2006. The increase is primarily due to an increase in wages and expenses and professional fees of $0.1 million We continue to perform research and development of new Liquidmetal alloys and related processing capabilities, develop new manufacturing techniques, and contract with consultants to advance the development of Liquidmetal alloys.

Loss from Extinguishments of Debt. Loss from extinguishments of debt increased to $0.6 million, or 13% of revenue, for the three months ended March 31, 2007 from $0 for the three months ended March 31, 2006. The $0.6 million loss from extinguishment of debt was recognized from the extinguishment of certain of our convertible and subordinated notes in January 2007.

Change in Value of Warrants. Change in value of warrants increased to a gain of $3.7 million, or 73% of revenue, for the three months ended March 31, 2007 from a loss of $1.3 million, or 20% of revenue, for the three months ended March 31, 2006. The change in value of warrants consisted of warrants issued from convertible notes and subordinated notes funded between 2004 and 2007 primarily as a result of fluctuations in our stock price.

Change in Value of Conversion Feature. Change in the value of our conversion feature liability from our senior convertible debt funded in March 2004 and exchanged in August 2004, August 2005 and January 2007 resulted in a change in value of conversion feature gain of $4.3 million, or 86% of revenue, during the three months ended March 31, 2007 from a loss of $1.8 million or 27% of revenue, for the three months ended March 31, 2006, primarily as a result of fluctuations in our stock price.

Other Income. Other income was $0.5 million, or 7% of revenue, for the three months ended March 31, 2006 from termination of a distribution agreement with a Japanese sporting goods distributor originally entered into in March 1996. There were no amounts recognized as other income during the three months ended March 31, 2007.

Interest Expense. Interest expense was $2.8 million, or 55% of revenue, for the three months ended March 31, 2007 and was $1.8 million, or 27% of revenue, for the three months ended March 31, 2006. Interest expense consists primarily of interest accrued on the Kookmin Bank loan funded in 2003, convertible debts funded in 2004, 2005, and 2007, subordinated notes funded in 2006, fees charged from short-term borrowings under the April 2005 factoring, loan, and security agreement, as well as amortization of debt issuance costs and discount on the convertible and subordinated debt. The increase was primarily due to higher debt balance, increased debt discount amortization, increases in fees from borrowings made under the April 2005 factoring, loan, and security agreement, and interest costs accrued for late filing penalties during the three months ended March 31, 2007.

Interest Income. Interest income was $61 thousand for the three months ended March 31, 2007 and was $2 thousand for the three months ended March 31, 2006 from interest earned on cash deposits.

Comparison of the years ended December 31, 2006 and 2005

Revenue. Revenue increased to $27.7 million in the twelve months ended December 31, 2006 from $16.4 million in the twelve months ended December 31, 2005. The increase included a $7.3 million increase in sales and prototyping of parts manufactured from bulk Liquidmetal alloys to consumer electronics customers as a result of increased demand in electronic casings

applications, and increase of $3.5 million in sale of our coatings products as a result of increased demand in oil drilling applications, and an increase of $0.5 million in research and development services as a result of increased research and development services primarily from defense applications.

Cost of Sales. Cost of sales increased to $22.4 million, or 81% of revenue, during the twelve months ended December 31, 2006 from $15.1 million, or 92% of revenue, in the twelve months ended December 31, 2005. The increase was a result of increases in bulk Liquidmetal alloy business and coatings business. Cost of sales as a percentage of revenue has decreased as a result of continued maturing of our manufacturing process, which represents our company s efforts to manage costs and focus on our core business, and an increase in revenues generated from our higher margin coatings products. We believe that higher manufacturing volumes and greater mix of higher-margin products in the future will cause the gross profit to improve over time. The cost to manufacture parts from our bulk Liquidmetal alloys is variable and differs based on the unique design of each product. However, cost of sales for the products sold by the coatings business segment is generally consistent because the Liquidmetal coatings products are produced by third parties and sold wholesale to various industries.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses increased to $10.0 million, or 36% of revenue, in the twelve months ended December 31, 2006 from $8.5 million, or 52% of revenue, in the twelve months ended December 31, 2005. This increase was primarily a result of increase in wages and expenses of $1.4 million, increase in professional and contracted services of $0.4 million, increase in travel expenses of $0.3 million, and increase in advertising and promotions expense of $0.2 million offset by a decrease in insurance expense of $0.7 million and decrease in rent expense of $0.1 million. The decrease in selling, general and administrative expenses as a percentage of revenue represent our company s efforts to manage costs and focus on our core business while continuing to build our corporate infrastructure required to prepare for and support the anticipated growth of our bulk Liquidmetal alloy business.

Research and Development Expenses. Research and development expenses decreases to $1.0 million, or 3% of revenue, in the twelve months ended December 31, 2006 from $1.1 million, or 7% of revenue, in the twelve months ended December 31, 2005. The decrease was a result of our company focusing primarily on our core business associated with our bulk Liquidmetal alloy business while managing our costs. Our company continues to perform research and development efforts on new Liquidmetal alloys and related processing capabilities, develop new manufacturing techniques, and contract with consultants and provide research grants to various institutions to advance the development of Liquidmetal alloys.

Impairment of Long Lived Assets. Impairment of long lived assets decreased to $0, in the twelve months ended December 31, 2006 from $4.5 million, or 27% of revenue, in the twelve months ended December 31, 2005. Impairment expense during 2005 represent primarily write-down of $2.7 million of raw materials considered to be long term inventory and $1.7 million of idle equipment which were written down due to our projected capacity for 2006 as not being significant enough to warrant holding this inventory as a long term asset. Further, while we have actively marketed the idle equipment for ultimate sale since early 2004, we were unable to sell this equipment. While the equipment may be used internally to meet future capacity requirements we did not anticipate utilizing this equipment internally in the near future. As such, we reduced the carrying values of the excess raw material and idle equipment in 2005. No such reductions were needed in 2006.

Loss from Extinguishments of Debt. Loss from extinguishments of debt decreased to $0 in the twelve months ended December 31, 2006 from $1.2 million, or 8% of revenue, in the twelve months ended December 31, 2005. The $1.2 million loss from extinguishments of debt was recognized from the exchange of our 6% Convertible Notes due 2006 in August 2005.

Change in Value of Warrants. Change in value of warrants was a gain of $0.3 million, or 1% of revenue during the twelve months ended December 31, 2006, and $4.0 million, or 24% of revenue, during the twelve months ended December 31, 2005, from the change in value of warrants issued primarily as a result of fluctuations in our stock price.

Change in Value of Conversion Feature. Change in the value of our conversion feature liability from our senior convertible debt funded in March 2004 and exchanged in August 2004 and August 2005 resulted in a change in value of conversion feature loss of $0.2 million, or 1% of revenue, in the twelve months ended December 31, 2006, and a gain of $9.1 million, or 56% of revenue, in the twelve months ended December 31, 2005, primarily due to fluctuations in our stock price.

Other Income. Other income was $0.6 million, or 2% of revenue, in the twelve months ended December 31, 2006 from $0.1 million of gain recognized from disposal of idle equipment and $0.5 million gain recognized from termination of a distribution agreement with a Japanese sporting goods distributor originally entered into in March 1996. There were no amounts recognized as other income in the twelve months ended December 31, 2005.

Interest Expense. Interest expense was $9.5 million or 34% of revenue, in the twelve months ended December 31, 2006 and was $6.0 million, or 37% of revenue, in the twelve months ended December 31, 2005. Interest expense consists primarily of interest accrued on the Kookmin Bank loan funded in 2003, convertible debt funded in 2004 and 2005, subordinated notes funded in 2006, fees charged from short-term borrowings under the 2005 factoring, loan, and security agreement, as well as amortization of debt issuance costs and discount on the convertible debt. The increase in interest expense was primarily due to costs accrued for late registration penalties of $1.6 million, higher debt balances and increased debt discount amortization during the twelve months ended December 31, 2006.

Interest Income. Interest income was $23 thousand and $17 thousand for the twelve months ended December 31, 2006 and 2005, respectively, from interest earned on cash deposits.

Comparison of the years ended December 31, 2005 and 2004

Revenue. Revenue decreased to $16.4 million in the twelve months ended December 31, 2005 from $17.4 million in the twelve months ended December 31, 2004. The decrease included a $2.6 million decrease from restatement of revenues from 2003 to 2004 as part of our 2003 financial statement restatement which resulted in one-time recognition of revenues during the first quarter of 2004, and $0.9 million decrease from our research and development services related primarily to reduced activity from defense, leisure, and luxury goods applications during 2005. The decreases were offset by a $0.4 million increase in bulk alloy parts primarily to increased sales to sporting goods manufacturers and $1.9 million increase from sale of our coatings products from increased demand for drill pipe coatings during 2005.

Cost of Sales. Cost of sales increased to $15.1 million, or 92% of revenue, during the twelve months ended December 31, 2005 from $12.2 million, or 70% of revenue, in the twelve months ended December 31, 2004. The increase was a result of decreases in bulk Liquidmetal alloy business. Cost of sales as a percentage of revenue has increased as a result of ramp up of lower margin electronic casing and prototypes during the year. Further, significant portion of our manufacturing costs continue to remain fixed. We believe that higher manufacturing volumes and greater mix of higher margin products in the future will cause the gross profit to improve over time. The cost to manufacture parts from our bulk Liquidmetal alloys is variable and differs based on the unique design of each product. However, the cost of sales for the products sold by the coatings business segment is generally consistent because the Liquidmetal coatings products are produced by third parties and sold wholesale to various industries.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses decreased to $8.5 million, or 52% of revenue, in the twelve months ended December 31, 2005 from $11.6 million, or 67% of revenue, in the twelve months ended December 31, 2004. This decrease was primarily a result of decrease in professional and contracted services of $1.8 million, decrease in advertising and promotions expense of $0.2 million, decrease in bad debt expenses of $0.1 million, decrease in product warranty expense of $0.2 million, decrease in insurance costs of $0.6 million, and decrease in amortization and depreciation costs of $0.2 million. These and other decreases in selling, general and administrative expenses represent our efforts to manage costs and focus on our core business while continuing to build our corporate infrastructure required to prepare for and support the anticipated growth of our bulk Liquidmetal alloy business.

Research and Development Expenses. Research and development expenses decreased to $1.1 million, or 7% of revenue, in the twelve months ended December 31, 2005 from $1.5 million, or 8% of revenue, in the twelve months ended December 31, 2004. The decrease was primarily a result of decreases in salaries, wages and related expenses by $0.3 million and decrease in laboratory and prototyping expenses by $0.1 million. The decreases were a result of our company focusing primarily on our core business associated with our bulk Liquidmetal alloy business while managing our costs. We continue to perform research and development efforts on new Liquidmetal alloys and related processing capabilities, develop new manufacturing techniques, and contract with consultants and provide research

grants to various institutions to advance the development of Liquidmetal alloys.

Impairment of Long Lived Assets. Impairment of long lived assets increased to $4.5 million, or 27% of revenue, for the twelve months ended December 31, 2005 from $0 for the twelve months ended December 31, 2004. Impairment expense represents primarily write-down of $2.7 million of raw materials considered to be long term inventory and $1.7 million of idle

equipment. While we may use the excess raw materials beyond one year to fulfill future customer order, we have determined that our current capacity was not significant enough to warrant holding this inventory as a long term asset. Further, while we have actively marketed the idle equipment for ultimate sale since early 2004, we were unable to sell this equipment. In addition, while the equipment may be used internally to meet future capacity requirements, considering our current revenue, we do not anticipate utilizing this equipment internally in the near future. As such, we have reduced the carrying values of the excess raw material and idle equipment.

Loss from Extinguishments of Debt. Loss from extinguishments of debt decreased to $1.2 million, or 8% of revenue, for the twelve months ended December 31, 2005 from $2.9 million, or 17% of revenue, for the twelve months ended December 31, 2004. The $1.2 million loss from extinguishments of debt was recognized from the exchange of our 6% Convertible Notes due 2006 in August 2005. The $1.7 million loss from extinguishments of debt was recognized from exchange of our 6% Senior Convertible Notes due March 2007 in August 2004.

Change in Value of Warrants. Change in value of warrants was a net gain of $4.0 million, or 24% of revenue, and $0.7 million, or 4.3% of revenue, during the twelve months ended December 31, 2005 and 2004, respectively from the change in value of warrants issued from the senior convertible notes issued in March 2004 and exchanged in August 2004, convertible debt funded in June 2005, and senior convertible debt funded in August 2005 primarily as a result of fluctuations in our stock price.

Change in Value of Conversion Feature. Change in the value of our conversion feature liability from our senior convertible notes issued in March 2004 and exchanged in August 2004 and August 2005 resulted in a change in value of conversion feature gain of $9.1 million, or 56% of revenue, and a gain of $2.1 million, or 12% of revenue, for the twelve months ended December 31, 2005 and 2004, respectively, primarily due to fluctuations in our stock price.

Other Income. Other income was $0.3 million, or 2% of revenue, during the twelve months ended December 31, 2004 from certain stock transactions with John Kang, our Chairman, President, and Chief Executive Officer during 2002 (see CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS). There were no amounts recorded as other income for the twelve months ended December 31, 2005.

Interest Expense. Interest expense was $6.0 million, or 37% of revenue, for the twelve months ended December 31, 2005 and was $6.6 million, or 38% of revenue, for the twelve months ended December 31, 2004. During each of the twelve months ended December 31, 2005 and 2004, the interest expense was primarily due to the interest accrued on the Kookmin Bank loan funded on February 4, 2003, senior convertible debt funded on March 3, 2004 and exchanged in August 2004, convertible debt funded on June 13, 2005, and senior convertible debt funded in August 9, 2005, as well as amortization of debt issuance costs and discount on the convertible debt. During 2005, $0.1 million of interest expense was accrued from default interest rates applied to the senior convertible notes effective April 1, 2005 from non-payment of quarterly scheduled interest payments and $1.0 million of late registration penalty fee of our senior convertible debt was accrued as interest expense. The default interest and late registration penalty were paid as of December 31, 2005.

Interest Income. Interest income was $17 thousand for the twelve months ended December 31, 2005, and $37 thousand for the twelve months ended December 31, 2004 from interest earned on cash deposits.

Liquidity and Capital Resources

Since our inception, we have funded our operations through the sale of equity securities in private placements and our initial public offering, the sale of convertible notes and warrants in private placements, debt financing, and cash generated from operations.

Our cash used for operating activities was $5.4 million for the three months ended March 31, 2007 and $1.2 million for the three months ended March 31, 2006. Our working capital deficit decreased from $ $23.2 million at December 31, 2006 to $16.1 million at March 31, 2007. Our working capital deficit decrease of $7.1 million was primarily attributable to increase in cash and cash equivalent of $2.8 million, increase in restricted cash of $2.1 million, increase in other assets of $1 million decrease in accounts payable and accrued liability of $2.1 million, decrease

in short term debt of $1.2 million, decrease in current portion of long-term debt of $2.6 million, offset by decrease in trade accounts receivable of $0.9 million, inventories of $1.2 million, decrease in property, plant and equipment of $1.0 million, and increase in conversion feature liabilities of $1.6 million.

Our cash used in investing activities was $0.2 million for the three months ended March 31, 2007 primarily for investments in joint venture.

Our cash provided by financing activities was $8.5 million for the three months ended March 31, 2007. We received net $3.7 million in borrowings from factoring agreement executed in April 2005. The proceeds from borrowings have been used to meet working capital requirements. We have $3.5 million available for future borrowings under the factoring agreement, which is contingent on approval of eligible receivables by the financing company. As of March 31, 2007, we had cash of $2.9 million.

Our capital requirements during the next twelve months will depend on numerous factors, including the success of existing products either in manufacturing or development, the development of new applications for Liquidmetal alloys, and the resources we devote to develop and support our Liquidmetal alloy products, the success of pursuing strategic licensing and funded product development relationships with external partners.

We have experienced significant operating losses since our inception. Our net loss for the fiscal years ended December 31, 2006 and 2005 was $14.5 million and $7.1 million, respectively. For the three months ended March 31, 2007 and 2006, we had a net income of $0.5 million and a net loss of $6.0 million, respectively. In the audit report on our financial statements for our fiscal years ended December 31, 2006 and 2005, our auditors included a going-concern qualification indicating that our significant operating losses and working capital deficit cause substantial doubt about our ability to continue as a going concern. By issuing an opinion stating that there is substantial doubt about our ability to continue as a going concern, our auditors have indicated that they are uncertain as to whether we have the capability to continue our operations without additional funding. On January 3, 2007, we completed a private placement of $16.3 million in principal amount of 8% Convertible Subordinated Notes due January 2010 (the January 2010 Notes). The January 2010 Notes were issued for aggregate cash in the amount of $12.9 million and in payment of a total of $3.4 million in principal and accrued but unpaid interest under our previously issued 7% Senior Secured Convertible Notes Due August 2007 and our 8% Unsecured Subordinated Notes.

We anticipate that the $12.9 million aggregate cash raised in the January 2007 private placement will be sufficient to pursue our current operating plan only through the third quarter of 2007, and we will therefore require additional funding at or prior to that time. As a result, we are actively seeking additional sources of capital. The amount of funding that we seek and the timing of such fundraising efforts will depend on the extent to which we are able to increase revenues through obtaining additional purchase orders for our products and/or the extent to which we can restructure or modify our debt. Because we cannot be certain that we will be able to obtain adequate funding from debt, equity, or other traditional financing sources, we are also actively exploring several strategic financing options, including the possible sale of our manufacturing plant in South Korea (which would then be replaced with a smaller facility), potential licensing and outsourcing of manufacturing operations including those in South Korea and China, and the possible sale of our Liquidmetal Coatings business. In June 2007, we entered into an equipment sale and licensing agreement with Grace Metal, a South Korean corporation, providing for $2.0 million in exchange for die casting machines and vacuum induction melters, and a 10-year exclusive license to manufacture Liquidmetal alloys for customers whose principal headquarters or major operations are based in South Korea. The principal purpose of the transactions with Grace Metal was to raise capital for the next-generation casting equipment and to shift the cost and burden of our manufacturing operations to a third party. Grace Metal was formed by an investor group that includes the former Founder and director of our company, James Kang, who is also the brother of John Kang, Chairman of the Board of our company. We cannot guarantee that adequate funds will be available when needed, and if we do not receive sufficient capital, we may be required to alter or reduce the scope of our operations.

As of March 31, 2007, we had accrued $1.6 million and paid $0.9 million of the late filing and registration fees as a result of the late fee provisions of a restated registration rights agreement, dated August 2, 2005. We are currently in negotiations with the holders to settle the outstanding late filing and registration fees. However, we cannot predict the outcome of the negotiations, and the resolution of this issue may harm our business and have a material adverse impact on our financial condition.

Initial Public Offering Proceeds

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

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

Private Placements of Convertible Notes and Bridge Notes

On March 3, 2004, we sold $9.9 million of 6.0% Senior Convertible Notes due 2007 (the Initial Notes) and warrants to purchase approximately 1.2 million shares of our common stock to accredited investors in a private placement. The notes were convertible at any time into our common stock at a price of $3.00 per share, and the warrants granted in this transaction expired on various dates through March 1, 2006.

On August 19, 2004, we completed a private placement in which the investors in the March 2004 private placement exchanged approximately $5.46 million in aggregate principal amount of the Initial Notes for an aggregate of (i) $2.73 million of new 6% Senior Secured Notes Due 2007 (the July 2007 Notes) and (ii) $2.73 million of new 10% Senior Secured Notes Due 2005 (the July 2005 Notes). The remaining Initial Notes were redeemed for cash in connection with the transaction. The July 2007 Notes and July 2005 Notes were secured by certain patents owned by our company and a second priority mortgage interest in plant facilities and certain equipment at our plant in South Korea. The July 2005 Notes had a maturity date of July 29, 2005, and a conversion price of $2.00 per share. The July 2007 Notes had a maturity date of July 29, 2007, and a conversion price of $1.00 per share.

On June 13, 2005, we completed a private placement of 10% Convertible Unsecured Notes Due June 13, 2006 in the aggregate principal amount of $3.25 million (the June 2006 Bridge Notes), together with warrants to purchase up to an aggregate of 893,750 shares of our company s common stock. The June 2006 Bridge Notes were unsecured and were due on the earlier of June 13, 2006 or the consummation of a follow-on equity or debt offering or restructuring transaction pursuant to which our company receives gross proceeds of at least $4.0 million.

On August 9, 2005, we completed a private placement of $9.9 million in principal amount of new 7% Senior Secured Convertible Notes due August 2007 (the August 2007 Notes). The August 2007 Notes were issued in consideration of $5.0 million in cash, the exchange of $1.3 million in principal amount of the July 2005 Notes, the exchange of $3.0 million in principal amount of the June 2006 Bridge Notes (resulting in the full satisfaction of the June 2006 Bridge Notes), satisfaction of accrued interest and late registration fees in the amount of $0.6 million on the July 2005 Notes, and satisfaction of accrued interest of $9 thousand on the June 2006 Bridge Notes. Interest of 7% per annum on the August 2007 Notes was due quarterly. The August 2007 Notes were convertible into shares of our common stock at $2.00 per share and were secured by substantially all of our assets. We also issued warrants to the purchasers of the August 2007 Notes and placement agents giving them the right to purchase up to 2,469,470 and 414,495 shares of our common stock, respectively, with an exercise price of $2.00 per share. The warrants will expire on August 2, 2010.

On March 17, 2006, in exchange for a $1.0 million loan, we issued a $1.0 million 10% subordinated promissory note due October 16, 2006 (the Atlantic Note) to Atlantic Realty Group, Inc., a company controlled by Jack Chitayat, a former director of our company. The Atlantic Note was unsecured and subordinated to all prior indebtedness of our company. All accrued interest and unpaid principal was due on October 16, 2006. In connection with the March 2006 Note, we issued warrants to Atlantic Realty to purchase an aggregate amount of up to 125,000 shares of common stock exercisable at $2.00 per share. The warrants will expire on March 17, 2009.

On May 17, 2006, September 21, 2006, and December 1, 2006, we completed a private placement of 8% Unsecured Subordinated Notes in the aggregate principal amount of $4.6 million (the New Bridge Notes), together with warrants to purchase up to an aggregate of 973,064 shares of our common stock. The New Bridge Notes were unsecured and were scheduled to become due on the earlier of August 17, 2007 or the consummation of a follow-on equity or debt offering pursuant to which we receive gross proceeds of at least $6.0 million, but in no event will the New Bridge Notes become due any earlier than the payment in full of the August 2007 Notes and July 2007 Notes. Interest on the New Bridge Notes accrues at the rate of 8% per annum. The New Bridge Notes are subordinate in right of payment and in all other respects to the previously issued July 2007 Notes and August 2007 Notes. As a part of the private placement of the New Bridge Notes, we issued warrants to the purchasers of the New Bridge Notes giving them the right to purchase up to an aggregate of 890,990 shares of our common stock, and warrants to purchase 82,074 shares of our common stock were issued to the placement agent in the transaction. The warrants have an exercise price of $2.58 per share and will expire on May 17, 2011.

As of December 31, 2006, $9.9 million in aggregate principal amount of August 2007 Notes were still outstanding with accrued but unpaid interest in the amount of approximately $173 thousand, and $2.1 million in aggregate principal amount of July 2007 Notes were also outstanding with accrued but unpaid interest in the amount of approximately $32 thousand. As of December 31, 2006, $4.6 million in aggregate principal amount of New Bridge Notes were still outstanding with accrued but unpaid interest in the amount of approximately $195 thousand.

On January 3, 2007, we completed a private placement of new 8% Convertible Subordinated Notes due January 2010 (the January 2010 Notes). As a result of an April 2007 amendment to this transaction, we ultimately issued $16.3 million in principal amount of January 2010 Notes, which supersedes the aggregate note amount indicated in our prior announcements regarding the private placement. Under the amended transaction, the January 2010 Notes were issued for aggregate cash in the amount of $12.9 million and in payment of a total of $3.4 million in principal and accrued but unpaid interest under the August 2007 Notes and New Bridge Notes. The January 2010 Notes have a maturity date of January 3, 2010.

The January 2010 Notes were issued pursuant to a Securities Purchase Agreement, dated January 3, 2007, between our company and the purchasers of the January 2010 Notes (the January Purchase Agreement). Under the terms of the original January Purchase Agreement, we agreed to repay or otherwise satisfy, within 5 days after the closing of the private placement, approximately $15.5 million of our outstanding debt under previously issued promissory notes, including the August 2007 Notes, the Atlantic Note, and New Bridge Notes (the Debt Satisfaction Covenant). We originally agreed to this covenant based on assurances that a substantial number of holders of the August 2007 Notes would elect to convert their August 2007 Notes at a reduced conversion price following the private placement under a note conversion agreement proposed by us, but most of such holders ultimately elected not to proceed with such conversion. Accordingly, in an effort to preserve funds, we have not yet repaid the indebtedness as required by the original January Purchase Agreement, and in April 2007, we entered into an amendment to the January Purchase Agreement providing that we will have until October 1, 2007 (or such earlier date on which the indebtedness to be repaid is due) to comply with the Debt Satisfaction Covenant. In addition, the April 2007 amendment provides that the purchasers of the January 2010 Notes have the right to require us to redeem such notes prior to maturity in the event that we sell our Liquidmetal Coatings business unit, sell our manufacturing facility in South Korea, and/or engage in any debt or equity financing, provided that the foregoing transactions result in aggregate cumulative proceeds of $25,000,000, and it also provides that we will be obligated to grant to the purchasers of such notes a *par passu* security interest in any collateral (if any) that is used to secure our next private placement of convertible notes. As required by the January Purchase Agreement, the April 2007 amendment was executed by the holders of more than fifty percent (50%) of the outstanding principal amount of the Notes.

The January 2010 Notes, as amended by the April 2007 amendment, are convertible at any time at the option of the holder into shares of our common stock at a conversion price of $1.10 per share (compared to an original conversion price of $1.55 per share), subject to adjustment for anti-dilution. The January 2010 Notes bear interest at 8% per annum with interest payable quarterly in arrears in cash, or, at our option, in the form of additional January 2010 Notes (in which case the interest rate will be 10% per annum). Our ability to pay interest with additional January 2010 Notes is subject to specified conditions, including the existence of an effective registration statement covering the resale of the shares issued in payment of interest and certain minimum trading volumes in the stock to be issued. From and after an event of default under the January 2010 Notes and for so long as the event of default is continuing, the January 2010 Notes will bear default interest at a rate of 12% per annum (or 15% per annum if we elect to pay interest with additional January 2010 Notes).

Beginning July 31, 2008 and at the end of each month thereafter, we will be required to redeem 1/36th of the principal amount of the January 2010 Notes in cash or, at our election, with shares of our common stock. Our ability to pay the redemption amounts with shares of our common stock will be subject to specified conditions, including the existence of an effective registration statement covering the resale of the shares issued in payment of the redemption amount and certain minimum trading volumes in the stock to be issued. Any unconverted January 2010 Notes will become due on December 31, 2009, although we will have the right at any time after 18 months following the issuance of the January 2010 Notes to redeem the January 2010 Notes in whole or in part for a cash redemption price of 105% of the portion of the principal amount being redeemed plus all accrued and unpaid interest thereon. The January 2010 Notes are unsecured and are subordinate to our July 2007 Notes and to certain secured financing from commercial lenders incurred by us in the future. The terms of the 2010 Notes also provide that we will be required to maintain a sufficient bank balance to provide for the timely repayment of our July 2007 Notes.

As a part of the January 2007 private placement, we issued warrants to the purchasers of the January 2010 Notes giving them the right following the April 2007 amendment to purchase up to an aggregate of 7,408,881 shares of our common stock at an exercise price of $1.55 per share. In connection with the private placement, we also issued to the placement agent for the transaction warrants to purchase an aggregate of 248,710 shares of our common stock at an exercise price of $1.55 per share. All of the warrants (including the warrants granted to the placement agent in the transaction) are immediately exercisable and will expire in January 2012.

In connection with the January 2007 private placement, we entered into a Registration Rights Agreement with the purchasers of the January 2010 Notes under which we are required, on or before 45 days after the closing of the private placement, to use our commercially reasonable efforts to file a registration statement with the SEC covering the resale of the shares of our common stock issuable pursuant to the January 2010 Notes and warrants and to use our commercially reasonable efforts to have the registration declared effective at the earliest date (but in no event later than 90 days after filing if there is no SEC review of the registration statement, or 120 days if there is an SEC review). We will be subject to certain monetary penalties, as set forth in the Registration Rights Agreement, up to a maximum amount of 18% of the aggregate amount of Notes sold in the Private Placement if the registration statement is not filed or does not become effective on a timely basis. The monetary penalties will accrue at the rate of 1% per month of the then-outstanding principal amount of the January 2010 Notes. In the event that we are unable to include in the registration statement all shares of our common stock issuable pursuant to the January 2010 Notes and warrants, then we will be required to file up to two additional registration statements to register the resale of any shares excluded from the originally filed registration statement and to pay the foregoing monetary penalties on the January 2010 Notes convertible into the excluded shares until the resale of such excluded shares is covered by an effective registration statement or until such shares can be sold under SEC Rule 144. As of April 23, 2007, an aggregate of $148 thousand in monetary penalties under the Registration Rights Agreement had already been paid to investors, while an additional $178 thousand in such penalties were accrued but unpaid.

On March 22, 2007, one of the purchasers of the January 2010 Notes (holding January 2010 Notes in the aggregate amount of $2.0 million) sent us an event of default notice (Event of Default Notice) indicating that we had defaulted under the January Purchase Agreement (and therefore under the January 2010 Note) by failing to comply with the Debt Satisfaction Covenant. This holder did not execute the April 2007 amendment to the January Purchase Agreement, although the amendment was approved by a majority of the noteholders. In general, upon a breach of the January 2010 Notes or January Purchase Agreement, a holder of the January 2010 Notes may require us to redeem the January 2010 Notes at a price equal to the greater of (i) the conversion amount to be redeemed and (ii) the product of (A) the conversion rate with respect to such conversion amount in effect at such time as the purchaser of the January 2010 Note delivers an Event of Default Redemption Notice (as defined below) and (B) the closing sale price of our common stock on the date immediately preceding such event of default. Under the terms of the January 2010 Notes and January Purchase Agreement, we have ten (10) business days after the receipt of an Event of Default Notice to cure a default. On April 6, 2007, the holder which sent the Event of Default Notice further sent us an event of default redemption notice (Event of Default Redemption Notice). The Event of Default Redemption Notice states that the holder has elected to require us to redeem its January 2010 Note for a price equal to $2.0 million (the amount of the January 2010 Note) plus accrued and unpaid interest. On April 16, 2007, we were served with a complaint filed by the holder in the Federal District Court in Minnesota to collect this amount. We have answered and denied that any amount is currently owed to the holder, because of the April 2007 amendment to the January Purchase Agreement. The holder has also moved for summary judgment and a hearing on that motion is scheduled for August 30, 2007. We are currently working to resolve this matter.

In addition, because we repaid $1.8 million of principal and interest under the Atlantic Note and certain New Bridge Notes in January and February 2007 without first repaying the August 2007 Notes and July 2007 Notes, we may also be in breach of the August 2007 Notes and July 2007 Notes. In February 2007, we entered into conversion agreements with the holders of the August 2007 Notes holding $0.4 million of principal providing for the conversion of such notes at a reduced conversion price of $1.25 per share and issued 320,000 shares of our common stock.

Loan from Kookmin Bank

Our Liquidmetal Technologies Korea Co., Ltd. subsidiary has an outstanding loan from Kookmin Bank in the Republic of Korea. As of March 31, 2007, the outstanding balance under this loan was $1.2 million. The loan is payable in monthly installments of $0.11 million per month through February 2008.

Off Balance Sheet Arrangements

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

On June 26, 2006, we entered into a joint venture agreement with SAGA, SpA in Padova, Italy, (SAGA) a specialist precision parts manufacturer. The joint venture is named Liquidmetal SAGA Italy, Srl (LSI). We also entered into an exclusive manufacturing license agreement for the eyewear industry with LSI. Under the joint venture agreement, we have the option to buy ownership interest in LSI, initially, of 19.9% to up to 50%. In December 2006, we have purchased 19.9% interest in the joint venture. Under the licensing agreement, at any time following 18 months after the effective date of the agreement, LSI may exercise its option to sell us certain business assets including manufacturing equipment acquired under the joint venture. During the year ended December 31, 2006, we recognized revenues of $0.7 million of Liquidmetal alloys sold to SAGA for use in the joint venture. We anticipate the alloys to be fully utilized by the joint venture prior to the 18 month period.

Contractual Obligations

The following table summarizes our company s obligations and commitments as of March 31, 2007:

Payments Due by Period (in thousands)
Less Than