

LIQUIDMETAL TECHNOLOGIES INC  
Form 10-Q  
November 14, 2016  
**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2016**

**OR**

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

**For the transition period from        to**

**Commission File No. 001-31332**

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**LIQUIDMETAL TECHNOLOGIES, INC.**

(Exact name of Registrant as specified in its charter)

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

**30452 Esperanza**

**Rancho Santa Margarita, CA 92688**

(Address of principal executive offices, zip code)

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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of common shares outstanding as of November 11, 2016 was 882,481,151.

**LIQUIDMETAL TECHNOLOGIES, INC.**  
**FORM 10-Q**  
**FOR THE QUARTER ENDED september 30, 2016**

**FORWARD-LOOKING INFORMATION**

This Quarterly Report on Form 10-Q of Liquidmetal Technologies, Inc. contains “forward-looking statements” that may state our management’s plans, future events, objectives, current expectations, estimates, forecasts, assumptions or projections about the company and its business. Any statement in this report that is not a statement of historical fact is a forward-looking statement, and in some cases, words such as “believes,” “estimates,” “projects,” “expects,” “intends,” “may,” “anticipates,” “plans,” “seeks,” and similar words or expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual outcomes and results to differ materially from the anticipated outcomes or results. These statements are not guarantees of future performance, and undue reliance should not be placed on these statements. It is important to note that our actual results could differ materially from what is expressed in our forward-looking statements due to the risk factors described in the section of our Annual Report on Form 10-K for the year ended December 31, 2015 entitled “Risk Factors,” as well as the following risks and uncertainties:

- Our ability to fund our operations in the long-term through financing transactions on terms acceptable to us, or at all;
- Our history of operating losses and the uncertainty surrounding our ability to achieve or sustain profitability;
- Our limited history of developing and selling products made from our bulk amorphous alloys;
- Our limited history of licensing our technology to third parties;
- 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, other than as required by applicable law, to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

## TABLE OF CONTENTS

### **PART I - Financial Information**

Item 1 – Financial Statements	4
Consolidated Balance Sheets	
Consolidated Statements of Operations and Comprehensive Loss	
Consolidated Statement of Shareholders' Equity	
Consolidated Statements of Cash Flows	
Notes to Consolidated Financial Statements	
Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3 – Quantitative and Qualitative Disclosures about Market Risk	24
Item 4 – Controls and Procedures	24
<b>PART II – Other Information</b>	
Item 1 – Legal Proceedings	26
Item 1A – Risk Factors	26
Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds	26
Item 3 – Defaults Upon Senior Securities	26
Item 4 – Mine Safety Disclosures	26
Item 5 – Other Information	26
Item 6 – Exhibits	27
Signatures	28

**PART I****FINANCIAL INFORMATION****Item 1 – Financial Statements****LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(\$ in thousands, except par value and share data)

	<b>September 30,</b>	<b>December 31,</b>
	<b>2016</b>	<b>2015</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b><u>ASSETS</u></b>		
Current assets:		
Cash	\$ 6,402	\$ 2,773
Restricted cash	5	2,008
Trade accounts receivable, net of allowance for doubtful accounts	17	30
Inventory	227	83
Prepaid expenses and other current assets	452	408
<b>Total current assets</b>	<b>\$ 7,103</b>	<b>\$ 5,302</b>
Property and equipment, net	1,134	1,370
Patents and trademarks, net	518	570
Other assets	36	31
<b>Total assets</b>	<b>\$ 8,791</b>	<b>\$ 7,273</b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
Current liabilities:		
Short-term debt	-	700
Accounts payable	216	250
Accrued liabilities	1,695	947
Deferred revenue	13	77
Warrant liabilities, current	1,255	-
Option liabilities	-	-
<b>Total current liabilities</b>	<b>\$ 3,179</b>	<b>\$ 1,974</b>

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Long-term liabilities:		
Warrant liabilities, long-term	1,449	59
Other long-term liabilities	856	856
<b>Total liabilities</b>	<b>\$ 5,484</b>	<b>\$2,889</b>
Shareholders' equity:		
Preferred Stock, \$0.001 par value; 10,000,000 shares authorized; 0 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	-	-
Common stock, \$0.001 par value; 1,100,000,000 shares authorized; 582,332,818 and 477,149,485 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively.	582	477
Warrants	18,179	18,179
Additional paid-in capital	216,357	203,735
Accumulated deficit	(231,743 )	(217,945 )
Non-controlling interest in subsidiary	(68 )	(62 )
<b>Total shareholders' equity</b>	<b>3,307</b>	<b>4,384</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 8,791</b>	<b>\$7,273</b>

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

## LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS and COMPREHENSIVE LOSS

(\$ in thousands, except share and per share data)

(unaudited)

	For the Three Months		For the Nine Months		
	Ended September 30, 2016	2015	Ended September 30, 2016	2015	
Revenue					
Products	\$154	\$42	\$329	\$80	
Licensing and royalties	-	-	27	27	
<b>Total revenue</b>	154	42	356	107	
Cost of sales	165	160	336	312	
<b>Gross profit (loss)</b>	(11	) (118	) 20	(205	)
Operating expenses					
Selling, marketing, general and administrative	1,679	1,763	5,461	5,506	
Research and development	548	491	1,730	1,428	
<b>Total operating expenses</b>	2,227	2,254	7,191	6,934	
<b>Operating loss</b>	(2,238	) (2,372	) (7,171	) (7,139	)
Change in value of warrant liabilities, gain (loss)	563	1,138	(1,885	) 1,326	
Change in value of option liabilities, loss	-	-	(2,613	) -	
Loss on contract modification	(2,126	) -	(2,126	) -	
Interest expense	(1	) (1	) (9	) (1	)
Interest income	-	5	-	19	
<b>Net loss and comprehensive loss</b>	(3,802	) (1,230	) (13,804	) (5,795	)
Net loss attributable to non-controlling interest	2	2	6	6	
<b>Net loss and comprehensive loss attributable to Liquidmetal Technologies shareholders</b>	\$(3,800	) \$(1,228	) \$(13,798	) \$(5,789	)
<b>Net loss per common share attributable to Liquidmetal Technologies shareholders, basic and diluted</b>	\$(0.01	) \$(0.00	) \$(0.02	) \$(0.01	)
<b>Number of weighted average shares - basic and diluted</b>	582,332,818	475,816,152	558,918,003	468,890,226	

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



## LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

For the Nine Months Ended September 30, 2016

(\$ in thousands, except share data)

(unaudited)

	Preferred Shares	Common Shares	Common Stock	Warrants part of Additional Paid-in Capital	Additional Paid-in Capital	Accumulated Deficit	Non- Controlling Interest	Total
<b>Balance, December 31, 2015</b>	-	477,149,485	\$ 477	\$ 18,179	\$ 203,735	\$(217,945 )	\$( 62 )	\$4,384
Common stock issuance, net of issuance costs		105,000,000	105		6,274			6,379
Stock option exercises		183,333	-		15			15
Stock-based compensation					1,083			1,083
Written call options					3,124			3,124
Loss on contract modification					2,126			2,126
Net loss						(13,798 )	( 6 )	(13,804)
<b>Balance, September 30, 2016</b>	-	582,332,818	\$ 582	\$ 18,179	\$ 216,357	\$(231,743 )	\$( 68 )	\$3,307

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

**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(\$ in thousands, except per share data)

(unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Operating activities:</b>		
Net loss	\$(13,804)	\$(5,795)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	415	374
Bad debt expense	-	19
Stock-based compensation	1,083	1,035
Loss on contract modification	2,126	-
Restricted stock compensation issued to officer	-	182
Loss (gain) from change in value of warrant liabilities	1,885	(1,326)
Loss from change in value of option liabilities	2,613	-
Changes in operating assets and liabilities:		
Trade accounts receivable	13	44
Inventory	(144 )	(111 )
Prepaid expenses and other current assets	(44 )	(17 )
Other assets	(5 )	-
Accounts payable and accrued liabilities	(36 )	323
Deferred revenue	(64 )	22
<b>Net cash used in operating activities</b>	<b>(5,962 )</b>	<b>(5,250 )</b>
<b>Investing Activities:</b>		
Purchases of property and equipment	(105 )	(650 )
Decrease (increase) in restricted cash	2,003	(2,006)
Investment in patents and trademarks	(22 )	-
<b>Net cash provided by (used in) investing activities</b>	<b>1,876</b>	<b>(2,656)</b>
<b>Financing Activities:</b>		
Proceeds from short-term debt	-	700
Repayment of short-term debt	(700 )	-
Proceeds from exercise of stock options	15	13
Proceeds from common stock issuance, net of issuance costs	8,400	1,568

<b>Net cash provided by financing activities</b>	7,715	2,281
<b>Net increase (decrease) in cash</b>	3,629	(5,625 )
<b>Cash at beginning of period</b>	2,773	10,009
<b>Cash at end of period</b>	\$6,402	\$4,384
<b>Supplemental Schedule of Non-Cash Investing and Financing Activities:</b>		
Accrued stock issuance costs	\$(750 )	-

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

**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Nine Months Ended September 30, 2016 and 2015**

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

(unaudited)

## **1. Description of Business**

Liquidmetal Technologies, Inc. (the “Company”) is a materials technology and manufacturing company that develops and commercializes products made from amorphous alloys. The Company’s family of alloys consists of a variety of bulk alloys and composites that utilizes the advantages offered by amorphous alloys technology. The Company designs, develops, manufactures and sells custom products and components from bulk amorphous alloys to customers in a wide range of industries. The Company also partners with third-party manufacturers and licensees to develop and commercialize Liquidmetal alloy products.

Amorphous alloys are, in general, unique materials that are distinguished by their ability to retain a random atomic structure when they solidify, in contrast to the crystalline atomic structure that forms in other metals and alloys when they solidify. Liquidmetal alloys are proprietary amorphous alloys that possess a combination of performance, processing, and potential cost advantages that the Company believes will make them preferable to other materials in a variety of applications. The amorphous atomic structure of bulk alloys enables them to overcome certain performance limitations caused by inherent weaknesses in crystalline atomic structures, thus facilitating performance and processing characteristics superior in many ways to those of their crystalline counterparts. The Company’s alloys and the injection molding technology it employs result in components that exhibit: exceptional dimensional control and repeatability that rivals precision machining, excellent corrosion resistance, brilliant surface finish, high strength, high hardness, high elastic limit, alloys that are non-magnetic, and the ability to form complex shapes common to the injection molding of plastics. Interestingly, all of these characteristics are achievable from the molding process, so design engineers do not have to select specific alloys to achieve one or more of the characteristics as is the case with crystalline materials. The Company believes these advantages could result in Liquidmetal alloys supplanting high-performance alloys, such as titanium and stainless steel, and other incumbent materials in a wide variety of applications. Moreover, the Company believes these advantages could enable the introduction of entirely new products and applications that are not possible or commercially viable with other materials.

The Company’s revenues are derived from i) selling bulk amorphous alloy custom products and components for applications which include, but are not limited to, non-consumer electronic devices, medical products, automotive components, and sports and leisure goods, ii) selling tooling and prototype parts such as demonstration parts and test samples for customers with products in development, iii) product licensing and royalty revenue, and iv) research and development revenue. The Company expects that these sources of revenue will continue to significantly change the character of the Company’s revenue mix.

## 2. Basis of Presentation and Recent Accounting Pronouncements

The accompanying unaudited interim consolidated financial statements as of and for the three and nine months ended September 30, 2016 and September 30, 2015 have been prepared in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”) for interim financial information and in accordance with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. All intercompany balances and transactions have been eliminated in consolidation. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for any future periods or the year ending December 31, 2016. The accompanying unaudited consolidated financial statements should be read in conjunction with the Company's 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on March 7, 2016.

### Revenue Recognition

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

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

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



**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Nine Months Ended September 30, 2016 and 2015**

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

(unaudited)

Fair Value Measurements

The estimated fair values of financial instruments reported in the consolidated financial statements have been determined using available market information and valuation methodologies, as applicable. The fair value of cash, restricted cash, and short-term debt approximate their carrying value due to their short maturities.

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

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

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

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

The Company has several financial instruments, namely warrant liabilities that are recorded at fair value on a periodic basis using Level 2 measurement inputs. These instruments are evaluated under the hierarchy of FASB ASC Subtopic 480-10, FASB ASC Paragraph 815-25-1 and FASB ASC Subparagraph 815-10-15-74 addressing the accounting for certain financial instruments with characteristics of both liabilities and equity and derivative accounting. The fair value of such instruments is estimated using the Black-Scholes option pricing model. Due to the presence of certain anti-dilution and exercise price reset provisions, such instruments are required to be classified as liabilities (see Note 11).

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As of September 30, 2016, the following table represents the Company's fair value hierarchy for items that are required to be measured at fair value on a recurring basis:

	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Warrant liabilities (current)	1,255	-	1,255	-
Warrant liabilities (long-term)	1,449	-	1,449	-

As of December 31, 2015, the following table represents the Company's fair value hierarchy for items that are required to be measured at fair value on a recurring basis:

	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Warrant liabilities (long-term)	59	-	59	-

Recent Accounting Pronouncements

*Leases*

In February 2016, the FASB issued an accounting standards update which modifies the accounting for leasing arrangements, particularly those arrangements classified as operating leases. This update will require entities to recognize the assets and liabilities arising from operating leases on the balance sheet. This guidance is effective for fiscal and interim periods beginning after December 15, 2018 and is required to be applied retrospectively to all leasing arrangements. The Company is currently assessing the effects this guidance may have on its consolidated financial statements.

*Stock-Based Compensation*



In March 2016, the FASB issued an accounting standards update which simplifies the accounting for share-based payment transactions, inclusive of income tax accounting and disclosure considerations. This guidance is effective for fiscal and interim periods beginning after December 15, 2016 and is required to be applied retrospectively to all impacted share-based payment arrangements. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Nine Months Ended September 30, 2016 and 2015**

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

**(unaudited)**

*Revenue from Contracts with Customers*

In May 2014, the FASB issued an accounting standards update which modifies the requirements for identifying, allocating, and recognizing revenue related to the achievement of performance conditions under contracts with customers. This update also requires additional disclosure related to the nature, amount, timing, and uncertainty of revenue that is recognized under contracts with customers. This guidance is effective for fiscal and interim periods beginning after December 15, 2017 and is required to be applied retrospectively to all revenue arrangements. The Company is currently assessing the effects this guidance may have on its consolidated financial statements.

*Ability to Continue as a Going Concern*

In August 2014, the FASB issued an accounting standards update which requires an assessment of an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently addressed by U.S. auditing standards. This standard is effective for the fiscal years ending after December 15, 2016, and for annual periods and interim periods thereafter. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

*Inventory*

In July 2015, the FASB issued an accounting standards update which modifies the requirements for measuring the value of inventory on a periodic basis. The new requirement will be to measure inventory at the lower of cost or net realizable value. This standard is effective for the fiscal years ending after December 15, 2016, and for annual periods and interim periods thereafter. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA and the SEC did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

### 3. Significant Transactions

#### 2016 Purchase Agreement

On March 10, 2016, the Company entered into a Securities Purchase Agreement (the "2016 Purchase Agreement") with Liquidmetal Technology Limited, a Hong Kong company (the "Investor"), providing for the purchase by the Investor of up to 405,000,000 shares of the Company's common stock for an aggregate purchase price of \$63,400.

The 2016 Purchase Agreement provided that the Investor is obligated to purchase up to 405,000,000 shares of the Company's common stock in multiple closings, with the Investor having purchased 105,000,000 shares at an aggregate purchase price of \$8,400 (or \$0.08 per share) at the initial closing on March 10, 2016. The 2016 Purchase Agreement provided that the Investor will purchase the remaining 200,000,000 shares at \$0.15 per share and 100,000,000 shares at \$0.25 per share for an aggregate purchase price of \$55,000 after the satisfaction of certain conditions, including Company shareholder approval of an amendment to the Company's Amended and Restated Certificate of Incorporation increasing the Company's authorized number of shares of common stock from 700,000,000 to 1,100,000,000 (the "Charter Amendment").

In addition to the shares issuable under the 2016 Purchase Agreement, the Company also issued to the Investor a warrant to acquire 10,066,809 shares of common stock of the Company at an exercise price of \$0.07 per share. The warrant vests in increments on each closing date under the 2016 Purchase Agreement for a number of warrant shares that is proportionate to the amount of shares purchased under the 2016 Purchase Agreement on such closing date (with 2,609,913 warrant shares having initially vested on March 10, 2016 and the remaining 7,456,896 warrant shares vesting on October 26, 2016). The warrant will expire on the 10th anniversary of its issuance date.

The 2016 Purchase Agreement also provided that the Investor would have the right to designate one individual to serve on the Company's Board of Directors. Once the Investor purchases the remaining 300,000,000 shares of common stock under the 2016 Purchase Agreement, the Investor would thereafter have the right to designate an additional two individuals to serve on the Company's Board of Directors (such that the Investor would have designation rights with respect to three of the seven members of the Company's Board of Directors, with one such member serving as Chairman). The 2016 Purchase Agreement also provided that, with certain limited exceptions, if the Company issues any shares of common stock at any time through the 5th anniversary of the Purchase Agreement, the Investor will have a preemptive right to subscribe for and to purchase at the same price per share (or at market price, in the case of issuance of shares pursuant to stock options) the number of shares necessary to maintain its ownership percentage of Company-issued shares of common stock.

On May 19, 2016, the Company's shareholders approved the Charter Amendment, thereby obligating the Investor to purchase the remaining 300,000,000 shares of the Company's common stock for the aggregate purchase price of \$55,000.

**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Nine Months Ended September 30, 2016 and 2015**

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

(unaudited)

On October 26, 2016, the Company issued and sold to the Investor an aggregate of 300,000,000 shares of Company's common stock for an aggregate purchase price of \$55,000, comprised of 200,000,000 shares at a price of \$0.15 per share and 100,000,000 shares at a price of \$0.25 per share. As a result of this closing, the Investor has completed its entire investment in the Company contemplated by the 2016 Purchase Agreement.

Eontec License Agreement

In connection with the 2016 Purchase Agreement and also on March 10, 2016, the Company and DongGuan Eontec Co., Ltd., a Hong Kong corporation ("Eontec"), entered into a Parallel License Agreement (the "License Agreement") pursuant to which the Company and Eontec entered into a cross-license of their respective technologies.

The License Agreement provides for the cross-license of certain patents, technical information, and trademarks between the Company and Eontec. In particular, under the License Agreement, the Company granted to Eontec a paid-up, royalty-free, perpetual license (or sublicense, as the case may be) to the Company's patents and related technical information to make, have made, use, offer to sell, sell, export and import products in certain geographic areas outside of North America and Europe, and Eontec granted to the Company a paid-up, royalty-free, perpetual license (or sublicense, as the case may be) to Eontec's patents and related technical information to make, have made, use, offer to sell, sell, export and import products in certain geographic areas outside of specified countries in Asia. The license granted by the Company to Eontec is exclusive (including to the exclusion to the Company) in the countries of Brunei, Cambodia, China (P.R.C and R.O.C.), East Timor, Indonesia, Japan, Laos, Malaysia, Myanmar, North Korea, Philippines, Singapore, South Korea, Thailand and Vietnam. The license granted by Eontec to the Company is exclusive (including to the exclusion of Eontec) in North America and Europe. The cross-licenses are non-exclusive in geographic areas outside of the foregoing exclusive territories.

2014 Purchase Agreement

On August 20, 2014, the Company entered into a common stock purchase agreement ("2014 Purchase Agreement") with Aspire Capital Fund LLC ("Aspire Capital"), which provided that, upon the terms and subject to the conditions and

limitations set forth therein, Aspire Capital would be committed to purchase up to an aggregate of \$30,000 worth of the Company's common stock, \$0.001 par value, over the 36-month term of the 2014 Purchase Agreement.

On March 9, 2016, the Company terminated the 2014 Purchase Agreement. As of the date of termination, the Company had received an aggregate of \$1,568 under the 2014 Purchase Agreement through the issuance of 12,500,000 shares of its common stock at a weighted average price of \$0.13 per share.

#### Line of Credit Facility

In February 2015, the Company entered into a \$2,000 line of credit facility, with a fixed interest rate of 2.1%, which originally matured on February 13, 2016. The facility was extended through August 25, 2016, with reductions in available borrowings and associated collateral requirements to \$1,000. On August 26, 2016, the Company fully repaid all outstanding principal and accrued interest balances due under the facility. As of such date, all collateral to the facility was released. Interest expense applicable to these borrowings was \$1 and \$9 for the three and nine months ended September 30, 2016, respectively, and \$1 and \$1 for the corresponding three and nine month periods ended September 30, 2015, respectively.

#### Apple License Transaction

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

Under the agreements relating to the license transaction with Apple, the Company was obligated to contribute, to CIP, all intellectual property that it developed through February 2012. Subsequently, this obligation was extended to apply to all intellectual property developed through February 2016. The Company is also obligated to maintain certain limited liability company formalities with respect to CIP at all times after the closing of the license transaction.



**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Nine Months Ended September 30, 2016 and 2015**

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

(unaudited)

Visser Precision Cast, LLC License Agreement

On June 1, 2012, the Company entered into a Master Transaction Agreement (the “Visser MTA”) with Visser Precision Cast, LLC (“Visser”) relating to a strategic transaction for manufacturing services and financing. On May 20, 2014, the Company and Visser entered into a settlement agreement significantly amending the Visser MTA, whereby the Company granted to Visser a fully paid-up, royalty-free, irrevocable, perpetual, worldwide, non-transferable, nonexclusive sublicense to all of the Company’s intellectual property developed on or prior to May 20, 2014 (the “Effective Date”). Visser does not have any rights, now or in the future, to intellectual property of the Company developed after the Effective Date. The license to the Company’s intellectual property developed on or prior to the Effective Date does not include the right to use the “Liquidmetal” trademark or any of the Company’s other trademarks, except in certain defined situations, as set forth in the amended and restated agreement.

With the foregoing revised arrangements, the Company is no longer required to use Visser as its exclusive manufacturer and is free to license other manufacturers on a non-exclusive basis in any industry or geographic market as to which the Company has not previously granted an exclusive license to a third party. Additionally, the settlement amended and restated the two warrants the Company issued to Visser in June 2012 to purchase 15,000,000 shares of the Company’s common stock at an exercise price of \$0.22 per share. The amended and restated warrant agreement includes the effect of anti-dilution adjustments and is exercisable for 18,611,079 shares of common stock (increased further to 21,126,522 shares under the anti-dilution provisions of the warrants, see Note 11) at an exercise price of \$0.17 per share (further reduced to \$0.16 per share under the anti-dilution provisions of the warrants, see Note 11).

Other License Transactions

On January 31, 2012, the Company entered into a Supply and License Agreement for a five year term with Engel Austria GmbH (“Engel”) whereby Engel was granted a non-exclusive license to manufacture and sell injection molding machines to the Company’s licensees. Since that time, the Company and Engel have agreed on an injection molding machine configuration that can be commercially supplied and supported by Engel. On December 6, 2013, the companies entered into an Exclusivity Agreement for a 10 year term whereby the Company agreed, with certain exceptions and limitations, that the Company and its licensees would purchase amorphous alloy injection molding machines exclusively from Engel, and this exclusivity right was granted in exchange for certain royalties to be paid by



Engel to the Company based on a percentage of the net sales price of such injection molding machines.

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

In June 2003, the Company entered into an exclusive license agreement with LLPG, Inc. ("LLPG"). Under the terms of the agreement, LLPG has the exclusive right to commercialize Liquidmetal alloys, particularly precious-metal based compositions, in jewelry and high-end luxury product markets. The Company, in turn, will receive royalty payments over the life of the contract on all Liquidmetal products produced and sold by LLPG. The exclusive license agreement with LLPG expires on December 31, 2021.

In March 2009, the Company entered into a license agreement with Swatch Group, Ltd. ("Swatch") under which Swatch was granted a non-exclusive license to the Company's technology to produce and market watches and certain other luxury products. In March 2011, this license agreement was amended to grant Swatch exclusive rights as to watches and all third parties (including the Company), but non-exclusive as to Apple, and the Company's license agreement with LLPG was simultaneously amended to exclude watches from LLPG's rights. The Company will receive royalty payments over the life of the contract on all Liquidmetal products produced and sold by Swatch. The license agreement with Swatch will expire on the expiration date of the last licensed patent.

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

For the nine months ended September 30, 2016, the Company's cash used in operations was \$5,962, cash flows from investing activities were \$1,876, primarily due to reductions in restricted cash as a result of collateral requirement reductions, and cash provided by financing activities was \$7,715 due to cash received from equity sales under the 2016 Purchase Agreement and the exercise of stock options. As of September 30, 2016, the Company's cash and restricted cash balance was \$6,407, which consisted of \$6,402 of cash and \$5 of short-term restricted cash.

On March 10, 2016, the Company entered into the 2016 Purchase Agreement providing for the purchase by the Investor of up to 405,000,000 shares of the Company's common stock for an aggregate purchase price of \$63,400.

The 2016 Purchase Agreement provides that the Investor is obligated to purchase up to 405,000,000 shares of the Company's common stock in multiple closings, with the Investor having purchased 105,000,000 shares at an aggregate purchase price of \$8,400 (or \$0.08 per share) at the initial closing on March 10, 2016, with the remaining 200,000,000 shares at \$0.15 per share and 100,000,000 shares at \$0.25 per share for an aggregate purchase price of \$55,000 closing on October 26, 2016 (see Note 3).

The Company has a relatively limited history of producing bulk amorphous alloy products and components on a mass-production scale. Furthermore, the ability of future contract manufacturers to produce the Company's products in desired quantities and at commercially reasonable prices is uncertain and is dependent on a variety of factors that are outside of the Company's control, including the nature and design of the component, the customer's specifications, and required delivery timelines. These factors have required that the Company engage in equity sales under various stock purchase agreements to support its operations and strategic initiatives. Uncertainty as to the outcome of these factors has previously raised substantial doubt about the Company's ability to continue as a going concern. Following the closing of the remaining funding under the 2016 Purchase Agreement, the Company anticipates that its current capital resources, when considering expected losses from operations, will be sufficient to fund the Company's operations for the foreseeable future.

**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Nine Months Ended September 30, 2016 and 2015**

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

(unaudited)

**5. Inventory**

Inventory totaled \$227 and \$83 as of September 30, 2016 and December 31, 2015, respectively, and primarily consisted of raw alloy and finished goods inventory to satisfy future customer orders. Inventory is stated at the lower of weighted-average cost or market.

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

Prepaid expenses and other current assets totaled \$452 and \$408 as of September 30, 2016 and December 31, 2015, respectively, and primarily consisted of prepaid invoices and insurance premiums that will be recognized as expenses at a timing consistent with when the associated services are provided.

**7. Patents and Trademarks, net**

Net patents and trademarks totaled \$518 and \$570 as of September 30, 2016 and December 31, 2015, respectively, and primarily consisted of purchased patent rights and internally developed patents.

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

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

The Company amortizes capitalized patents and trademarks over an average of 10 to 17 year periods. Amortization expense for patents and trademarks was \$25 and \$74 for the three and nine month periods ended September 30, 2016, respectively. This compares to \$24 and \$74 for the three and nine month periods ended September 30, 2015, respectively.

## 8. Other Assets

Other assets totaled \$36 and \$31 as of September 30, 2016 and December 31, 2015, respectively, and consisted of deposits under long-term lease agreements.

## 9. Accrued Liabilities

Accrued liabilities totaled \$1,695 and \$947 as of September 30, 2016 and December 31, 2015, respectively. Included within these totals are the following:

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Accrued payroll, vacation, and bonuses	\$ 783	\$ 766
Accrued stock issuance costs	750	-
Accrued audit fees	71	109
Straight-line rent accruals	91	72
Total	1,695	947

The Company entered into a non-exclusive investment banking engagement agreement with an investment banking firm during 2012 to provide support to the Company in the identification of potential investors for future strategic transactions or financing transactions. The services provided by the investment banking firm did not result in the identification of any practicable investment transactions and the agreement was considered effectively terminated by the Company during 2013, although no formal notice of termination was ever provided by either party. During the three-months ended September 30, 2016, the Company was contacted and advised by a representative of the investment banking firm that the firm did not consider the engagement agreement to be terminated and that amounts

raised under the 2013, 2014, and 2016 Purchase Agreements may be subject to success fees stipulated under their investment banking agreement. The firm advised the Company that such success fees would, based on the language of the engagement agreement, be equal to the greater of (i) 5% of the total proceeds received as a result of equity transactions or (ii) \$500. To date no formal claims have been filed against the Company. Subsequent to September 30, 2016, the Company reached a settlement with respect to any and all amounts allegedly due under the engagement agreement in the amount of \$750. As a result of the settlement, the engagement agreement is deemed to be terminated in all respects as of the settlement date of November 8, 2016. Such amounts have been reflected as an accrued liability as of September 30, 2016 and reflected as stock issuance costs as a reduction to additional paid in capital.

## **10. Short-Term Debt**

Short-term debt totaled \$0 and \$700 as of September 30, 2016 and December 31, 2015, respectively, and consisted of borrowings under a line of credit facility, with a fixed interest rate of 2.1%. All borrowings were fully repaid upon maturity of the facility on August 26, 2016. Interest expense related to outstanding borrowings was \$1 and \$9 for the three and nine months ended September 30, 2016, respectively. This compares to \$1 and \$1 for the corresponding three and nine month periods ended September 30, 2015.

This credit facility required the Company to maintain collateral for the full amount of the facility. Following maturity of the facility all collateral requirements have been removed.

**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Nine Months Ended September 30, 2016 and 2015**

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

(unaudited)

**11. Warrant Liabilities**

Pursuant to FASB ASC 815, the Company is required to report the value of certain warrants as a liability at fair value and record the changes in the fair value of the warrant liabilities as a gain or loss in its consolidated statement of operations and comprehensive loss due to the price-based anti-dilution rights of the warrants.

During June 2012, the Company issued warrants to purchase a total of 15,000,000 shares of common stock to Visser under the Visser MTA Agreement (see Note 3). These warrants had an original exercise price of \$0.22 per share, expire on June 1, 2017 and were originally valued at \$4,260. These warrants have certain anti-dilution and exercise price reset provisions which qualify the warrants to be classified as a liability under FASB ASC 815. As a result of subsequent issuances of the Company's common stock, which resulted in anti-dilutive price resets, the exercise price of these warrants was reduced to \$0.16 and \$0.17 as of September 30, 2016 and December 31, 2015, respectively. In addition, the number of shares to be issued under the warrants as a result of the anti-dilution provision increased to 21,126,522 and 18,937,931 as of September 30, 2016 and December 31, 2015, respectively. As of September 30, 2016, these warrants were valued at \$691 under the Black-Scholes valuation model utilizing the following assumptions: (i) expected life of 0.67 years, (ii) volatility of 72%, (iii) risk-free interest rate of 0.6%, and (iv) dividend rate of 0. The change in fair value for these warrants was a (gain) loss of \$(292) and \$657 for the three and nine months ended September 30, 2016, respectively.

On July 2, 2012, the Company issued warrants to purchase a total of 18,750,000 shares of common stock in a private placement (the "July 2012 Private Placement"). These warrants have an exercise price of \$0.384 per share, expire on July 2, 2017, and were originally valued at \$5,053. These warrants have certain anti-dilution and exercise price reset provisions which qualify the warrants to be classified as a liability under FASB ASC 815. As a result of contractually defined price resets, and issuances under the 2014 and 2016 Purchase Agreements, which resulted in an anti-dilution impact, the exercise price of these warrants was reduced to \$0.17 and \$0.19 as of September 30, 2016 and December 31, 2015, respectively. As of September 30, 2016 there were warrants to purchase a total of 17,572,000 shares of common stock outstanding, which were valued at \$564 under the Black-Scholes valuation model utilizing the following assumptions: (i) expected life of 0.75 years, (ii) volatility of 76%, (iii) risk-free interest rate of 0.6%, and (iv) dividend rate of 0. The change in fair value for these warrants was a (gain) loss of \$(172) and \$539 for the three and nine months ended September 30, 2016, respectively.

On March 10, 2016, the Company issued warrants to purchase a total of 10,066,809 shares of common stock as part of the 2016 Purchase Agreement. These warrants have an exercise price of \$0.07 per share, expire on March 10, 2026, and were originally valued at \$760. These warrants have certain anti-dilution and exercise price reset provisions which qualify the warrants to be classified as a liability under FASB ASC 815. As of September 30, 2016, these warrants were valued at \$1,449 under the Black-Scholes valuation model utilizing the following assumptions: (i) expected life of 9.44 years, (ii) volatility of 120%, (iii) risk-free interest rate of 1.60%, and (iv) dividend rate of 0. The change in fair value for these warrants was a (gain) loss of \$(99) and \$689 for the three and nine months ended September 30, 2016, respectively.

The following table summarizes the change in the Company's warrant liabilities as of September 30, 2016:

	<b>Visser MTA Agreement</b>	<b>July 2, 2012 Private Placement</b>	<b>2016 Purchase Agreement</b>	<b>Total</b>
Beginning Balance - December 31, 2015	\$ 34	\$ 25	\$ -	59
Original valuation- new issuances	-	-	760	760
Change in value of warrant liabilities, loss	657	539	689	1,885
Ending Balance - September 30, 2016	\$ 691	\$ 564	\$ 1,449	\$2,704
Included in current liabilities	\$ 691	\$ 564	\$ -	\$1,255
Included in long-term liabilities	\$ -	\$ -	\$ 1,449	\$1,449

The Company had warrants to purchase 48,765,331 and 36,509,931 shares of common stock outstanding as of September 30, 2016 and December 31, 2015, respectively, which were valued and classified as liabilities under FASB ASC 815.

**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Nine Months Ended September 30, 2016 and 2015**

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

(unaudited)

**12. Option Liabilities**

As part of the 2016 Purchase Agreement, executed on March 10, 2016, the Company granted the Investor the right to purchase shares of the Company's common stock in the future at predetermined prices. These options allow the investor to purchase 200,000,000 shares of the Company's common stock at a price of \$0.15 per share and 100,000,000 shares of the Company's common stock at a price of \$0.25 per share. Given that the number of shares to be issued upon exercise of these options was in excess of the number of shares authorized for issuance, these options were originally required to be classified as liabilities under FASB ASC 815. The 200,000,000 share option and the 100,000,000 share option were initially valued at \$489 and \$22, respectively. Following the filing of the Charter Amendment, which allowed for adequate authorized shares, these options were revalued as of May 19, 2016 and reclassified to permanent shareholders' equity. As of May 19, 2016, these written call options were valued at \$2,931 and \$193, respectively, under the Black-Scholes valuation model utilizing the following assumptions: (i) expected life of 0.25 years, (ii) volatility of 85%, (iii) risk-free interest rate of 0.31%, and (iv) dividend rate of 0. The change in fair value for these options was a loss of \$2,442 and \$171, respectively, for the nine months ended September 30, 2016.

The following table summarizes the change in the Company's option liabilities as of September 30, 2016:

	<b>200M Share Call Option</b>	<b>100M Share Call Option</b>	<b>Total</b>
Beginning Balance - December 31, 2015	\$-	\$ -	-
Original valuation	489	22	511
Change in value of option liabilities, loss	2,442	171	2,613
Reclassification to shareholders' equity	(2,931)	(193 )	(3,124)
Ending Balance - September 30, 2016	-	-	-



On August 11, 2016, the Company and the Investor entered into an amendment to the 2016 Purchase Agreement. Under the amendment, the Company agreed to extend the deadline for the Investor's purchase of 300,000,000 additional shares of Company common stock under the 2016 Purchase Agreement from the original deadline of August 17, 2016 to a new deadline of December 31, 2016. Other than the extension of the deadline, the amendment does not materially modify the terms of the 2016 Purchase Agreement. As a result of this amendment the Company recorded an additional \$2,126 of expense to additional paid in capital. Such amounts are reflected as a loss on contract modification within the consolidated statements of operations.

### **13. Other Long-Term Liabilities**

Other long-term liabilities were \$856 as of September 30, 2016 and December 31, 2015, and consisted of long-term, aged payables to vendors, individuals, and other third parties that have been outstanding for more than 5 years. The Company is in the process of researching and resolving the balances for settlement and/or escheatment in accordance with applicable state law.

### **14. Stock Compensation Plans**

Under the Company's 2002 Equity Incentive Plan (the "2002 Plan"), which provided for the grant of stock options to officers, employees, consultants and directors of the Company and its subsidiaries, the Company granted options to purchase the Company's common stock. A total of 10,000,000 shares of the Company's common stock were available for issuance under the 2002 Plan. The 2002 Plan expired by its terms in April 2012, but remains in effect only with respect to the equity awards that had been granted prior to its expiration. The Company had outstanding grants of options to purchase 507,500 and 822,000 shares of the Company's common stock as of September 30, 2016 and December 31, 2015, respectively.

On June 28, 2012, the Company adopted its 2012 Equity Incentive Plan, with the approval of the Company's shareholders, which provided for the grant of stock options to officers, employees, consultants and directors of the Company and its subsidiaries. All options granted under this plan had exercise prices that were equal to the fair market value on the dates of grant. During the nine months ended September 30, 2016, the Company granted options to purchase 2,000,000 shares of common stock. Under this plan, the Company had outstanding grants of options to purchase 25,746,985 and 25,988,734 shares of the Company's common stock as of September 30, 2016 and December 31, 2015, respectively.

On January 27, 2015, the Company adopted its 2015 Equity Incentive Plan, which provided for the grant of stock options to officers, employees, consultants and directors of the Company and its subsidiaries. A total of 40,000,000

shares of the Company's common stock are authorized for issuance under this plan. All options granted under this plan had exercise prices that were equal to the fair market value on the dates of grant. During the nine months ended September 30, 2016, the Company granted options to purchase 14,400,000 shares of common stock. Under this plan, the Company had outstanding grants of options to purchase 27,500,000 and 15,100,000 shares of the Company's common stock as of September 30, 2016 and December 31, 2015, respectively.

Stock based compensation expense attributable to these plans was \$365 and \$1,083 for the three and nine months ended September 30, 2016, respectively. This compares to \$320 and \$1,035 for the three and nine months ended September 30, 2015, respectively.

**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Nine Months Ended September 30, 2016 and 2015**

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

(unaudited)

**15. Shareholders' Equity**

Common Stock

In June 2012, the Company issued 30,000,000 shares of common stock to Visser in connection with the Visser MTA Agreement (see Note 3).

Pursuant to the terms of the Company's Senior Convertible Notes due September 1, 2013, which were issued in the July 2012 Private Placement, the Company opted to pay the twelve monthly installment payments prior to the September 1, 2013 maturity date with shares of the Company's common stock. Upon final settlement, the Company had issued 163,641,547 shares of common stock at a weighted average conversion price of \$0.0774, for the twelve installment payments due under the notes, consisting of \$12,000 of principal and \$680 of interest.

During the year ended December 31, 2013, the holders of the Company's Series A Preferred Stock converted all of the outstanding 506,936 shares of Series A Preferred Stock into 16,896,070 shares of the Company's common stock. After giving effect to such conversion, the Company has no shares of preferred stock outstanding.

On February 28, 2013, the Company's shareholders approved an amendment to the Certificate of Incorporation of the Company increasing the number of authorized shares of common stock from 400 million shares to 500 million shares.

On October 24, 2013, the Company's shareholders approved an amendment to the Company's Certificate of Incorporation increasing the number of authorized shares of common stock from 500 million shares to 700 million shares.

In connection with the execution of the 2013 Purchase Agreement, the Company issued to each of the 2013 Investors a pro rata portion of 2,666,667 shares of the Company's common stock. As of December 31, 2014, the Company had received an aggregate of \$16,000 under the 2013 Purchase Agreement through the issuance of 85,355,615 shares of its common stock at a weighted average price of \$0.19 per share. On August 22, 2014, the Company voluntarily terminated the 2013 Purchase Agreement, effective August 25, 2014.

On September 9, 2014, an initial registration statement covering 75,000,000 shares issued and issuable pursuant to the 2014 Purchase Agreement was declared effective by the SEC. As of September 30, 2015, the Company had received an aggregate of \$1,568 under the 2014 Purchase Agreement through the issuance of 12,500,000 shares of its common stock at a weighted average price of \$0.13 per share. On March 8, 2016, the Company voluntarily terminated the 2014 Purchase Agreement, effective March 9, 2016 (see Note 3).

In connection with the execution of the 2016 Purchase Agreement, the Company issued 105,000,000 shares of the Company's common stock, at a price of \$0.08 per share, for gross proceeds of \$8,400.

On May 19, 2016, the Company's shareholders approved the Charter Amendment increasing the number of authorized shares of common stock from 700 million shares to 1,100 million shares.

### Warrants

In connection with the Series A Preferred Stock issuances in 2009, warrants to purchase 29,779,557 shares of the Company's common stock, valued at \$18,179, were outstanding through July 15, 2015. Due to extension of the expiration date of these warrants during 2010, they no longer contained anti-dilution provisions and were reflected as equity as they did not meet the criteria under FASB ASC 815 for liability treatment. Such warrants had exercise prices ranging between \$0.48 and \$0.49 and expired on July 15, 2015.

### Non-Controlling Interest

The Company's Liquidmetal Golf subsidiary has the exclusive right and license to utilize the Company's Liquidmetal alloy technology for purposes of golf equipment applications. The Company owns 79% of the outstanding common stock of Liquidmetal Golf. As of September 30, 2016, non-controlling interest was a deficit of \$68. The December 31, 2015 non-controlling interest was a deficit of \$62.

## **16. Loss Per Common Share**

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

Options to purchase 53,754,485 shares of common stock, at prices ranging from \$0.07 to \$0.77 per share, were outstanding at September 30, 2016, but were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive, given the Company’s net loss. Warrants to purchase 48,765,331 shares of common stock, with prices ranging from \$0.07 to \$0.17 per share, outstanding at September 30, 2016 were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive, given the Company’s net loss. Written call options to purchase 300,000,000 shares of common stock, with prices ranging from \$0.15 to \$0.25 per share, outstanding at September 30, 2016 were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive, given the Company’s net loss.

**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Nine Months Ended September 30, 2016 and 2015**

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

(unaudited)

Options to purchase 42,558,733 shares of common stock, at prices ranging from \$0.08 to \$1.44 per share, were outstanding at September 30, 2015, but were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive, given the Company's net loss. Warrants to purchase 36,509,931 shares of common stock, with prices ranging from \$0.17 to \$0.19 per share, outstanding at September 30, 2015 were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive, given the Company's net loss.

## **17. Commitments and Contingencies**

### Operating Lease Commitments

The Company leases its offices and warehouse facilities under various lease agreements, certain of which are subject to escalations based upon increases in specified operating expenses or increases in the Consumer Price Index. As of September 30, 2016 and December 31, 2015, the Company had recorded \$91 and \$72, respectively, of deferred rent expenses.

Rent expense was \$56 and \$169 for the three and nine months ended September 30, 2016, respectively. Rent expense was \$56 and \$169 for the three and nine months ended September 30, 2015, respectively.

## **18. Related Party Transactions**

The Company entered into a license agreement (the “IMG License Agreement”) with Innovative Materials Group, LLC (“IMG”), a California limited liability company which is majority owned by Mr. Kang, a former Chief Executive Officer and former Chairman of the Company, to license certain patents and technical information for the limited purpose of manufacturing certain licensed products with the Company’s first generation die cast machines. The IMG License Agreement granted a non-exclusive license to certain product categories, as well as an exclusive license to specific types of consumer eyewear products and obligated IMG to pay the Company a running royalty based on its sales of licensed products through August 5, 2021. The Company recognized \$0 in royalty revenues from IMG during the three and nine months ended September 30, 2016 and 2015. The IMG License Agreement was terminated on March 8, 2016.

In March 2016, the Company executed an Amended and Restated Employment Agreement with Mr. Steipp. The Restated Employment Agreement provides for an employment term from its effective date through August 3, 2017, after which the employment term is renewed annually for successive one year terms, unless terminated by the Company or Mr. Steipp. Under the Restated Employment Agreement, Mr. Steipp is entitled to certain benefits if his employment is terminated involuntarily. These benefits include payment of a lump sum amount equal to one year of his annual base salary, continued insurance benefits at the Company’s expense for one year and accelerated vesting of equity awards. If the Company undergoes a “change of control”, and Mr. Steipp (i) is subsequently terminated without “cause”, or (ii) the Company subsequently takes certain actions that constitute “good reason”, and thereafter Mr. Steipp resigns, he will be entitled to a payment equal to one year of base salary, plus continued insurance benefits for two years, plus acceleration of vesting on equity awards and an extended time during which to exercise any equity awards that are stock options.

In March 2016, the Company entered into amended Change of Control Agreements with certain of its executive officers. The Change of Control Agreements provide that if the executive officer’s employment with the Company is terminated without cause during the one-year period after a change of control of the Company, then the terminated officer will receive lump sum severance compensation in an amount equal to twelve months of his then-current base salary. Under the agreements, each of the executive officers will also be entitled to the above-described severance compensation in the event he terminates his own employment within one year after a change of control because of a salary decrease, assignment to a lower-level position, or a required move of more than twenty-five miles. In addition, upon termination, all unvested stock options related to these officers will automatically and immediately vest and shall thereafter be exercisable in accordance with the terms and provisions of the applicable award agreements.

On March 10, 2016, the Company entered into the 2016 Purchase Agreement with Liquidmetal Technology Limited, providing for the purchase of up to 405,000,000 shares of the Company’s common stock for an aggregate purchase price of \$63,400. Liquidmetal Technology Limited is a newly formed company owned by Professor Yeung Tak Lugee Li (“Professor Li”). In connection with the 2016 Purchase Agreement and also on March 10, 2016, the Company and Eontec, entered into a license agreement pursuant to which the Company and Eontec entered into a cross-license of their respective technologies. Eontec is a publicly held Hong Kong corporation of which Professor Li is the Chairman and majority shareholder. As of September 30, 2016, Professor Li is a greater-than-5% beneficial owner of the Company. Services procured from Eontec were \$58 and \$68 during the three and nine month periods ended September 30, 2016, respectively.

**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Nine Months Ended September 30, 2016 and 2015**

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

(unaudited)

**19. Subsequent Event**

2016 Purchase Agreement

On October 26, 2016, the Company issued and sold to the Investor an aggregate of 300,000,000 shares of Company's common stock for an aggregate purchase price of \$55,000, comprised of 200,000,000 shares at a price of \$0.15 per share and 100,000,000 shares at a price of \$0.25 per share. As a result of this closing, the Investor has completed its entire investment in the Company contemplated by the 2016 Purchase Agreement.

Stock Issuance Costs

On November 8, 2016, the Company reached a settlement with respect to any and all amounts due under an investment banking services agreement that resulted in the payment of success fees related to previously executed equity sales. This settlement, in the amount of \$750, is deemed to terminate the investment banking services agreement, in all respects, as of this settlement date. Such amounts have been reflected as an accrued liability as of September 30, 2016 and reflected as stock issuance costs as a reduction to additional paid in capital.



## Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

*This management’s discussion and analysis should be read in conjunction with the consolidated financial statements and notes included elsewhere in this Quarterly Report on Form 10-Q. All amounts described in this section are in thousands, except percentages, periods of time, and share and per share data.*

*This management’s discussion and analysis, as well as other sections of this Quarterly Report on Form 10-Q, may contain “forward-looking statements” that involve risks and uncertainties, including statements regarding our plans, future events, objectives, expectations, estimates, forecasts, assumptions, or projections. Any statement that is not a statement of historical fact is a forward-looking statement, and in some cases, words such as “believe,” “estimate,” “project,” “expect,” “intend,” “may,” “anticipate,” “plan,” “seek,” and similar words or expressions identify forward-looking statements. These statements involve risks and uncertainties that could cause actual outcomes and results to differ materially from the anticipated outcomes or results, and undue reliance should not be placed on these statements. These risks and uncertainties include, but are not limited to, the matters discussed under the heading “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and other risks and uncertainties discussed in other filings made with the Securities and Exchange Commission (including risks described in subsequent reports on Form 10-Q and Form 8-K and other filings). We disclaim any intention or obligation, other than as required by applicable law, to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.*

### Overview

We are a materials technology company that develops and commercializes products made from amorphous alloys. Our Liquidmetal® family of alloys consists of a variety of proprietary bulk alloys and composites that utilize the advantages offered by amorphous alloy technology. We design, develop and sell custom products and components from bulk amorphous alloys to customers in various industries. We also partner with third-party manufacturers and licensees to develop and commercialize Liquidmetal alloy products.

Amorphous alloys are, in general, unique materials that are distinguished by their ability to retain a random atomic structure when they solidify, in contrast to the crystalline atomic structure that forms in other metals and alloys when they solidify. Liquidmetal alloys are proprietary amorphous alloys that possess a combination of performance, processing, and potential cost advantages that we believe will make them preferable to other materials in a variety of applications. The amorphous atomic structure of bulk alloys enables them to overcome certain performance limitations caused by inherent weaknesses in crystalline atomic structures, thus facilitating performance and processing characteristics superior in many ways to those of their crystalline counterparts. Our alloys and the injection molding technology we employ result in components that exhibit: exceptional dimensional control and repeatability

that rivals precision machining, excellent corrosion resistance, brilliant surface finish, high strength, high hardness, high elastic limit, alloys that are non-magnetic, and the ability to form complex shapes common to the injection molding of plastics. Interestingly, all of these characteristics are achievable from the molding process, so design engineers do not have to select specific alloys to achieve one or more of the characteristics as is the case with crystalline materials. We believe these advantages could result in Liquidmetal alloys supplanting high-performance alloys, such as titanium and stainless steel, and other incumbent materials in a wide variety of applications. Moreover, we believe these advantages could enable the introduction of entirely new products and applications that are not possible or commercially viable with other materials.

Our revenues are derived from i) selling our bulk amorphous alloy custom products and components for applications which include, but are not limited to, non-consumer electronic devices, medical products, automotive components, and sports and leisure goods; ii) selling tooling and prototype parts such as demonstration parts and test samples for customers with products in development; iii) product licensing and royalty revenue; and iv) research and development revenue. We expect that these sources of revenue will continue to significantly change the character of our revenue mix.

Our cost of sales consists primarily of the costs of manufacturing, which include raw alloy and internal labor required to operate our on-site production cell. Selling, general, and administrative expenses currently consist primarily of salaries and related benefits, travel, consulting and professional fees, depreciation and amortization, insurance, office and administrative expenses, and other expenses related to our operations.

Research and development expenses represent salaries, related benefits expenses, 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 bulk 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.

## **Licensing Transactions**

### Eontec License Agreement

In connection with the 2016 Purchase Agreement (as further described below), on March 10, 2016, the Company and DongGuan Eontec Co., Ltd., a Hong Kong corporation (“Eontec”), entered into a Parallel License Agreement (the “License Agreement”) pursuant to which the Company and Eontec entered into a cross-license of their respective technologies.

The License Agreement provides for the cross-license of certain patents, technical information, and trademarks between the Company and Eontec. In particular, under the License Agreement, the Company granted to Eontec a paid-up, royalty-free, perpetual license (or sublicense, as the case may be) to the Company’s patents and related technical information to make, have made, use, offer to sell, sell, export and import products in certain geographic areas outside of North America and Europe, and Eontec granted to the Company a paid-up, royalty-free, perpetual license (or sublicense, as the case may be) to Eontec’s patents and related technical information to make, have made, use, offer to sell, sell, export and import products in certain geographic areas outside of specified countries in Asia. The license granted by the Company to Eontec is exclusive (including to the exclusion to the Company) in the countries of Brunei, Cambodia, China (P.R.C and R.O.C.), East Timor, Indonesia, Japan, Laos, Malaysia, Myanmar, North Korea, Philippines, Singapore, South Korea, Thailand and Vietnam. The license granted by Eontec to the Company is exclusive (including to the exclusion of Eontec) in North America and Europe. The cross-licenses are non-exclusive in geographic areas outside of the foregoing exclusive territories.

### Apple License Transaction

On August 5, 2010, the Company entered into a license transaction with Apple Inc. (“Apple”) pursuant to which (i) the Company contributed substantially all of its intellectual property assets to a newly organized special-purpose, wholly-owned subsidiary, called Crucible Intellectual Property, LLC (“CIP”), (ii) CIP granted to Apple a perpetual, worldwide, fully-paid, exclusive license to commercialize such intellectual property in the field of consumer electronic products, as defined in the license agreement, in exchange for a license fee, and (iii) CIP granted back to the Company a perpetual, worldwide, fully-paid, exclusive license to commercialize such intellectual property in all other fields of use.

Under the agreements relating to the license transaction with Apple, the Company was obligated to contribute, to CIP, all intellectual property that it developed through February 2012. Subsequently, this obligation was extended to apply to all intellectual property developed through February 2016. The Company is also obligated to maintain certain limited liability company formalities with respect to CIP at all times after the closing of the license transaction.

Visser Precision Cast, LLC License Transaction

On June 1, 2012, the Company entered into a Master Transaction Agreement (the “Visser MTA”) with Visser Precision Cast, LLC (“Visser”) relating to a strategic transaction for manufacturing services and financing. On May 20, 2014, the Company and Visser entered into a settlement agreement significantly amending the Visser MTA, whereby the Company granted to Visser a fully paid-up, royalty-free, irrevocable, perpetual, worldwide, non-transferable, nonexclusive sublicense to all of the Company’s intellectual property developed on or prior to May 20, 2014 (the “Effective Date”). Visser does not have any rights, now or in the future, to intellectual property of the Company developed after the Effective Date. The license to the Company’s intellectual property developed on or prior to the Effective Date does not include the right to use the “Liquidmetal” trademark or any of the Company’s other trademarks, except in certain defined situations, as set forth in the amended and restated agreement.

With the foregoing revised arrangements, the Company is no longer required to use Visser as its exclusive manufacturer and is free to license other manufacturers on a non-exclusive basis in any industry or geographic market as to which the Company has not previously granted an exclusive license to a third party. Additionally, the settlement amended and restated the two warrants the Company issued to Visser in June 2012 to purchase 15,000,000 shares of the Company’s common stock at an exercise price of \$0.22 per share. The amended and restated warrant agreement includes the effect of anti-dilution adjustments and is exercisable for 18,611,079 shares of common stock (increased further to 21,126,522 shares under the anti-dilution provisions of the warrants, see Note 11) at an exercise price of \$0.17 per share (further reduced to \$0.16 per share under the anti-dilution provisions of the warrants, see Note 11).

Other License Transactions

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

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

In June 2003, the Company entered into an exclusive license agreement with LLPG, Inc. ("LLPG"). Under the terms of the agreement, LLPG has the exclusive right to commercialize Liquidmetal alloys, particularly precious-metal based compositions, in jewelry and high-end luxury product markets. The Company, in turn, will receive royalty payments over the life of the contract on all Liquidmetal products produced and sold by LLPG. The exclusive license agreement with LLPG expires on December 31, 2021.

In March 2009, the Company entered into a license agreement with Swatch Group, Ltd. ("Swatch") under which Swatch was granted a non-exclusive license to the Company's technology to produce and market watches and certain other luxury products. In March 2011, this license agreement was amended to grant Swatch exclusive rights as to watches and all third parties (including the Company), but non-exclusive as to Apple, and the Company's license agreement with LLPG was simultaneously amended to exclude watches from LLPG's rights. The Company will receive royalty payments over the life of the contract on all Liquidmetal products produced and sold by Swatch. The license agreement with Swatch will expire on the expiration date of the last licensed patent.

### **Critical Accounting Policies and Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions.

We believe that the following accounting policies are the most critical to our consolidated financial statements since these policies require significant judgment or involve complex estimates that are important to the portrayal of our financial condition and operating results:

- Revenue recognition
- Impairment of long-lived assets and definite-lived intangibles

- Deferred tax assets
- Valuation of liability classified warrants and options and embedded derivatives
- Share based compensation

Our Annual Report on Form 10-K for the year ended December 31, 2015 (the “2015 Annual Report”) contains further discussions on our critical accounting policies and estimates.

**Results of Operations**Comparison of the three and nine months ended September 30, 2016 and 2015

	<b>For the three months</b>				<b>For the nine months</b>			
	<b>ended September 30,</b>		<b>ended September 30,</b>		<b>ended September 30,</b>		<b>ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
	<b>% of</b>	<b>% of</b>	<b>% of</b>	<b>% of</b>	<b>% of</b>	<b>% of</b>	<b>% of</b>	<b>% of</b>
	<b>in 000's</b>	<b>in 000's</b>	<b>in 000's</b>	<b>in 000's</b>	<b>in 000's</b>	<b>in 000's</b>	<b>in 000's</b>	<b>in 000's</b>
	<b>Products</b>	<b>Products</b>	<b>Products</b>	<b>Products</b>	<b>Products</b>	<b>Products</b>	<b>Products</b>	<b>Products</b>
	<b>Revenue</b>	<b>Revenue</b>	<b>Revenue</b>	<b>Revenue</b>	<b>Revenue</b>	<b>Revenue</b>	<b>Revenue</b>	<b>Revenue</b>
Revenue:								
Products	\$154	\$42	\$329	\$80				
Licensing and royalties	-	-	27	27				
<b>Total revenue</b>	<b>154</b>	<b>42</b>	<b>356</b>	<b>107</b>				
Cost of sales	165	160	336	312	107	381	390	
<b>Gross profit (loss)</b>	<b>(11 )</b>	<b>(118 )</b>	<b>20</b>	<b>(205 )</b>	<b>-7</b>	<b>-281</b>	<b>-256</b>	
Selling, marketing, general and administrative	1,679	1,763	5,461	5,506	1090	4198	6883	
Research and development	548	491	1,730	1,428	356	1169	1785	
<b>Operating loss</b>	<b>(2,238)</b>	<b>(2,372)</b>	<b>(7,171 )</b>	<b>(7,139)</b>				
Change in value of warrant liabilities, gain (loss)	563	1,138	(1,885 )	1,326				
Change in value of option liabilities, loss	-	-	(2,613 )	-				
Loss on contract modification	(2,126)	-	(2,126 )	-				
Interest expense	(1 )	(1 )	(9 )	(1 )				
Interest income	-	5	-	19				
<b>Net loss</b>	<b>\$(3,802)</b>	<b>\$(1,230)</b>	<b>\$(13,804)</b>	<b>\$(5,795)</b>				

*In discussing our results of our operations, we have categorized the specific items of our consolidated statements of operations into various categories to facilitate the understanding of our core business operations. Explanations of each category as well as analyses of specific items contained in that category are discussed below:*

*Operating revenue and expenses*

The “Operating revenue and expenses” category of statements of operations items represent those items that pertain to our core operations in the bulk alloy manufacturing and licensing business as follows:

*Revenue.* Total revenue increased to \$154 for the three months ended September 30, 2016 from \$42 for the three months ended September 30, 2015. Total revenue increased to \$356 for the nine months ended September 30, 2016 from \$107 for the nine months ended September 30, 2015. The increase for both periods was attributable to a higher mix of small scale pre-production orders during 2016 as a result of our continued build out of our on-site manufacturing capabilities.

*Cost of sales.* Cost of sales was \$165, or 107% of products revenue, for the three months ended September 30, 2016, an increase from \$160, or 381% of products revenue, for the three months ended September 30, 2015. Cost of sales was \$336, or 102% of products revenue, for the nine months ended September 30, 2016, an increase from \$312, or 390% of products revenue, for the nine months ended September 30, 2015. The decrease in our cost of sales as a percentage of product revenue for the three and nine months ended September 30, 2016 was primarily attributable to higher costs of production during the 2015 periods as a result of the initial on-set of manufacturing efforts and the scaling of internal processes. The cost to manufacture products and components from our bulk amorphous alloys is variable and differs based on the unique design of each product. Given the continued development and refinement of our manufacturing efforts during the three and nine months ended September 30, 2016, our cost of sales as a percentage of products revenue is not necessarily representative of our future cost percentages and is expected to show continued improvement over time with increases in volume and continuous refinements to our internal processes. When we begin increasing our products revenues with shipments of routine, commercial products and components through our manufacturing facility and/or third party contract manufacturers, we expect our cost of sales percentages to decrease, stabilize and be more predictable.



*Gross profit (loss).* Our gross profit increased to \$(11) from \$(118) for the three month periods ended September 30, 2016 and 2015, respectively. Our gross profit, as a percentage of products revenue, increased to (7)% from (281)% for the three month periods ended September 30, 2016 and 2015, respectively. Our gross profit increased to \$20 from \$(205) for the nine month periods ended September 30, 2016 and 2015, respectively. Our gross profit, as a percentage of products revenue, increased to 6% from (256)% for the nine month periods ended September 30, 2016 and 2015, respectively. As discussed above under “Cost of sales”, early pre-production orders are resulting in a higher cost mix, relative to revenue, than would otherwise be incurred in an on-site production environment, with higher volumes and more established operating processes, or through contract manufacturers. As such, our gross profit percentages have fluctuated and may continue to fluctuate based on volume and quoted production prices per unit and may not be representative of our future business. When we begin increasing our products revenues with shipments of routine, commercial products and components through future orders to our manufacturing facility and/or third party contract manufacturers, we expect our gross profit percentages to stabilize, increase and be more predictable.

*Selling, marketing, general and administrative.* Selling, marketing, general and administrative expenses were \$1,679 and \$5,461 for the three and nine months ended September 30, 2016, respectively, compared to \$1,763 and \$5,506 for the three and nine months ended September 30, 2015, respectively. The decrease in expense for both periods was due to lower costs associated with employee compensation, inclusive of stock based compensation.

*Research and development.* Research and development expenses increased to \$548 and \$1,730 for the three and nine months ended September 30, 2016, respectively, from \$491 and \$1,428 for the three and nine months ended September 30, 2015, respectively. The increase in expense was mainly due to additional research projects and additional personnel hired to support our material and process development efforts. We continue to (i) perform research and development of new Liquidmetal alloys and related processing capabilities, (ii) develop new manufacturing techniques, and (iii) contract with consultants to advance the development of Liquidmetal alloys and related production processes.

*Operating loss.* Operating loss was \$2,238 and \$7,171 for the three and nine months ended September 30, 2016, respectively. This compares to \$2,372 and \$7,139 for the three and nine months ended September 30, 2015, respectively. Fluctuations in our operating loss are primarily attributable to variations in operating expenses, as discussed above.

We continue to invest in our technology infrastructure to expedite the adoption of our technology, but we have experienced long sales lead times for customer adoption of our technology. Until that time where we can either (i) increase our revenues with shipments of routine, commercial products and components through a combination of our manufacturing center or third party contract manufacturers or (ii) obtain significant licensing revenues, we expect to continue to have operating losses for the foreseeable future.

*Non-operational expenses*

Our statement of operations contains various, significant items that are non-operational in nature. These categories of expenses may have significant gains and losses based on the volatility of our stock price as follows:

*Change in value of warrant liabilities.* The change in value of warrant liabilities was a non-cash gain (loss) of \$563 and \$(1,885) for the three and nine months ended September 30, 2016, respectively. This compares to a non-cash gain of \$1,138 and \$1,326 for the three and nine months ended September 30, 2015, respectively. These adjustments result from periodic valuation adjustments related to fluctuations in our stock price, and other inputs, for warrants issued in connection with the Visser MTA, the July 2012 Private Placement, and the 2016 Purchase Agreement. Changes in the value of our warrants are non-cash and do not affect the core operations of our business or liquidity.

*Change in value of option liabilities.* The change in value of option liabilities was a non-cash loss of \$0 and \$2,613 for the three and nine months ended September 30, 2016, respectively. This compares to \$0 for the corresponding three and nine month periods ended September 30, 2015. These adjustments result from periodic valuation adjustments related to fluctuations in our stock price, and other inputs, for written call options issued in connection with the 2016 Purchase Agreement. Changes in the value of option liabilities are non-cash and do not affect the core operations of our business or liquidity.

*Loss on contract modification.* As a result of the amendment to the 2016 Purchase Agreement, we incurred an additional \$2,126 of expense relating to the extension of the exercise term for the written call options under the 2016 Purchase Agreement. Such expense was recorded directly to additional paid in capital.

*Interest expense.* Interest expense relates to interest incurred under our line of credit agreement. Such amounts were \$1 and \$9 for the three and nine months ended September 30, 2016, respectively. This compares to \$1 and \$1 for the three and nine months ended September 30, 2015, respectively.

*Interest income.* Interest income relates to interest earned from our cash deposits for the respective periods. Such amounts were \$0 and \$0 for the three and nine months ended September 30, 2016, respectively. This compares to \$5 and \$19 for the three and nine months ended September 30, 2015, respectively.

## **Liquidity and Capital Resources**

### Cash used in operating activities

Cash used in operating activities totaled \$6.0 million and \$5.3 million for the nine months ended September 30, 2016 and 2015, respectively. The cash was primarily used to fund operating expenses related to our business and product development efforts.

### Cash provided by (used in) investing activities

Cash provided by (used in) investing activities totaled \$1.9 million and \$(2.7) million for the nine months ended September 30, 2016 and 2015, respectively. Investing outflows primarily consist of capital expenditures to support our manufacturing efforts. Also included in investing cash flows are changes in restricted cash to support line of credit collateral requirements of which \$2.0 million was recorded as an in-flow during the nine months ended September 30, 2016 and \$2.0 million was recorded as an outflow during the nine months ended September 30, 2015.

### Cash provided by financing activities

Cash provided by financing activities totaled \$7.7 million and \$2.3 for the nine months ended September 30, 2016 and 2015, respectively. Cash provided by financing activities is comprised of cash received for the issuance of shares under the 2016 Purchase Agreement during 2016 and equity sales under the 2014 Purchase Agreement during 2015. Also included were funds received under our line of credit facility and subsequent paydowns of the same facility.

### Financing arrangements and outlook

On March 10, 2016, we entered into a Securities Purchase Agreement (the "2016 Purchase Agreement") with Liquidmetal Technology Limited, a Hong Kong company (the "Investor"), providing for the purchase by the Investor of up to 405,000,000 shares of our common stock for an aggregate purchase price of \$63.4 million.

The 2016 Purchase Agreement provides that the Investor is obligated to purchase up to 405,000,000 shares of our common stock in multiple closings, with the Investor having purchased 105,000,000 shares at an aggregate purchase price of \$8.4 million (or \$0.08 per share) at the initial closing on March 10, 2016, with the remaining 200,000,000 shares at \$0.15 per share and 100,000,000 shares at \$0.25 per share for an aggregate purchase price of \$55.0 million closing on October 26, 2016. As a result of these purchases, the Investor has completed its entire investment contemplated by the 2016 Purchase Agreement.

We have a relatively limited history of producing bulk amorphous alloy products and components on a mass-production scale. Furthermore, the ability of future contract manufacturers 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. These factors have required that we engage in equity sales under various stock purchase agreements to support our operations and strategic initiatives. Uncertainty as to the outcome of these factors has previously raised substantial doubt about our ability to continue as a going concern. Following the closing of the remaining funding under the 2016 Purchase Agreement, we anticipate that our current capital resources, when considering expected losses from operations, will be sufficient to fund our operations for the foreseeable future.

#### **Off Balance Sheet Arrangements**

As of September 30, 2016, we did not have any off-balance sheet arrangements.

#### **Item 3 – Quantitative and Qualitative Disclosures about Market Risk**

None.

#### **Item 4 – Controls and Procedures**

##### Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), we carried out an evaluation of the

effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of September 30, 2016. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2016.

Changes in Internal Control over Financial Reporting.

There were no changes in our internal control over financial reporting (as that term is defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II**

### **OTHER INFORMATION**

#### **Item 1 – Legal Proceedings**

There have been no significant developments with respect to legal proceedings specifically affecting Liquidmetal Technologies, Inc. or its subsidiaries since the filing of the 2015 Annual Report.

#### **Item 1A – Risk Factors**

For a detailed discussion of the risk factors that should be understood by any investor contemplating an investment in our stock, please refer to Part I, Item 1A “Risk Factors” in the 2015 Annual Report. There have been no material changes from the risk factors previously disclosed in Part I, Item 1A “Risk Factors” in the 2015 Annual Report.

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

During the period covered by this Quarterly Report on Form 10-Q, we did not issue or sell any unregistered equity securities, other than as reported in the Company’s Current Reports on Form 8-K filed with the SEC on March 14, 2016 and October 27, 2016 with respect to the 2016 Purchase Agreement.

#### **Item 3 – Defaults Upon Senior Securities**

None.

#### **Item 4 – Mine Safety Disclosures**

None.

**Item 5 – Other Information**

None.

26

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**Item 6 – Exhibits**

The following documents are filed as exhibits to this Report:

Exhibit <u>Number</u>	Description of Document
10.1	Amendment to Securities Purchase Agreement, dated August 11, 2016, between Liquidmetal Technologies, Inc. and Liquidmetal Technology Limited ( <i>incorporated by reference from Exhibit 10.1 to the Form 8-K filed on August 17, 2016</i> ).
31.1	Certification of Principal Executive Officer, Thomas Steipp, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer, Tony Chung, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer, Thomas Steipp, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer, Tony Chung, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	The following financial statements from Liquidmetal Technologies, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 (unaudited), formatted in XBRL: (i) Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015, (ii) Consolidated Statements of Operations and Comprehensive Loss for the three and nine months ended September 30, 2016 and 2015, (iii) Consolidated Statement of Shareholders' Equity for the nine months ended September 30, 2016, (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015, and (v) Notes to Consolidated Financial Statements.

**SIGNATURES**

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

LIQUIDMETAL TECHNOLOGIES, INC.  
(Registrant)

Date: November 14, 2016 /s/ Thomas Steipp  
Thomas Steipp  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: November 14, 2016 /s/ Tony Chung  
Tony Chung  
Chief Financial Officer  
(Principal Financial and Accounting Officer)